

Designing developmental after-care programmes for foreign direct investors in the European Union

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This article aims at developing a framework to assist the establishment, organisation and evaluation of after-care programmes at the regional level in the European Union. "After-care" is defined as comprising all potential services offered at the company level by Governments and their agencies, designed to facilitate both the successful start-up and the continuing development of a foreign affiliate in a host country or region with a view towards maximising its contribution to the local economic development. Illustrative issues of after-care programmes are defined, and a number of models of such programmes are presented. The latter range from the minimalist *company-friend* model to a *project-based* approach and an *after-care team*, to a fully integrated model which envisages after-care programmes as part of a comprehensive regional economic development plan.

Introduction

There is increased interest in the European Union and, indeed, elsewhere in the world, in after-care programmes for inward foreign direct investors. According to Alvin G. Wint (1993), after-care represents "a category of services that might be viewed as analogous to the marketing concept of "after sales services", or programmes which could be defined as "post-approval services". According to John H. Dunning (1992, p. 27), after-care activity represents an attempt "to reduce the hassle costs of doing business" while, in the broader way in which the term is used in this article, it also en-

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compasses activities that have been described as monitoring foreign investors (Hood and Young, 1980; 1983). The attention devoted to after-care services stems from the highly competitive environment for foreign direct investment (FDI), the varying shapes of investment projects by transnational corporations (TNCs) and the desire to try to anchor projects and encourage their development in an era of mobility and restructuring at both European and global levels. After-care services provision is one of the standard functions undertaken by FDI agencies, in addition to investment promotion, the granting of incentives and the provision of assistance with negotiation and approval procedures, but one which historically has been more symbolic than substantive. In part, the limited involvement in after-care programmes reflects the human resource-intensive nature of the activity, the organisational difficulties presented for FDI and other Government agencies and the problems of credibility and of impacting positively upon TNC operations. Undoubtedly these factors represent major challenges, but the opportunities in terms of long-term benefits are also significant.

The aim of this article is to develop a framework for the establishment, organisation and evaluation of after-care programmes at the regional level in the member countries of the European Union. That framework is a conceptual contribution to the design of after-care programmes in the European Union and has drawn upon the present authors' research and feedback from seminars undertaken in conjunction with FDI agencies in the United Kingdom. Regarding information sources, the authors undertook first a qualitative study on after-care programmes for one of the local companies of the Scottish Enterprise network in Scotland, United Kingdom, involving personal interviews with a number of major foreign investors in the region, as well as with staff in public sector organisations and Government departments. Second, during 1992 and 1993, the authors were engaged in a programme of research funded by the Scottish Enterprise on the contribution of FDI to the economy of Scotland, in which regional economic development issues and the role of after-care programmes were viewed as paramount. Thirdly, a series of seminars on the subject of FDI prospects to the year 2000 has been held in conjunction with regional investment attraction agencies across the United Kingdom, with after-care programmes in the new environment being a major issue. Finally, information on the activities of the FDI agencies in the European Union has been obtained from their brochures and publicity material as part of the ongoing research. As mentioned above, the framework developed here is, however, conceptual and not empirical, designed to stimulate thinking on a topic of considerable practical significance for FDI agencies and regional economic development.

The operations of inward investment agencies

The general functions of FDI agencies are set out in table 1. In generalising to cover both developed and developing countries, a wider span of functions than those that would normally be undertaken by investment agencies in Europe is presented. In most European Union countries, the policy formulation role is restricted to planning marketing strategies; screening for entry does not take place except when significant displacement effects on the indigenous industry are likely. But since incentives may be offered to inward investors, approval procedures involving Government departments and, in certain cases, the European Commission, are applied in such cases. Table 2 demonstrates a typical framework of activities undertaken by FDI agencies

Table 1. Functions of foreign-direct-investment agencies

• Policy formulation	Guideline for FDI policy; assessment of the effectiveness of policy; integration with national and regional industrial policies.
• Investment promotion and attraction	Marketing information and intelligence; marketing planning; marketing operations outside and inside the country.
• Investment approvals	Screening and evaluation of potential projects.
• Granting of incentives	Consideration of incentive offers; incentive negotiations; incentive approvals. Includes also direct financial incentives plus training grants, innovation grants, land and buildings etc.
• Providing assistance	Includes assistance with public utilities (roads, water, electricity, sewerage, telecommunications), factories and training; links with universities and research institutes; identification of potential suppliers.
• Monitoring; after-care services	Continuation of assistance post-launch. Liaison for possible expansion projects, developing local suppliers etc.

Table 2. Sequence of operations of foreign-direct-investment agencies of the European Union (with specific reference to the United Kingdom)

1. *Strategic marketing planning*^a: marketing information and intelligence systems; targeting of investment; development of marketing and promotion themes, programmes and materials.
 2. *Marketing outside the country*^b (proactive and reactive).
 3. *Marketing inside the country*^b (proactive and reactive).
 4. *Site visits*: company specific information/marketing materials, presentations, personal selling, visits to other investors and other bodies.
 5. *Negotiation and provision*: finance, site and property and related infrastructure and services.
 6. *Pre-start up services*^c: human resources, procurement and suppliers, other issues.
 7. *Factory opening*: general publicity.
 8. *Post-start up services*^c: strategic, operational and informational issues.
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Source: developed by the authors from Welsh Affairs Committee, 1988.

^a The corporate analysis work undertaken as part of targeting and promotion can be utilised subsequently as part of strategy and planning for after-care services.

^b Undertaken concurrently.

^c Assuming a successful conclusion to negotiations, a positive investment decision will be made during operation 5. Function 6 thus represents pre-start up after-care, and item 8 post-start up after-care. A complete list of after-care requirements/services is given in table 3.

in countries and regions of the European Union, shown as a sequence of operations; after-care programmes comprise activities 6 and 8.

Historically, emphasis has been placed on the investment promotion and attraction functions of FDI agencies, where Louis T. Wells and Alvin G. Wint (1990) have identified three different types of activity. The first is *image building*, designed to improve the image of a country as a location for investment; the second is *investment-generating activity*, with promotional techniques being used to identify and contact decision makers, thus encouraging investment; and the third, *investment-service* techniques, including post-investment or after-care services (see also Kotler, Haider and Rein, 1993). Inspecting the brochures of FDI agencies in Europe, however, the emphasis is very much on promotional activities to attract foreign investors rather than post-investment services. Reflecting the market conditions high-

lighted earlier, most organisations not only target greenfield ventures, but also offer to assist potential investors seeking joint-venture partners or even mergers and acquisitions (which one agency termed "economic cooperation" services). On the other hand, the support and assistance offered during start-up and thereafter seem very limited. Some agencies offer introductions to key suppliers, Government officials, academics etc., or provide assistance in arranging training or market research, but such services hardly constitute full after-care programmes. This does not mean that after-care services are not provided at all since such services may be the responsibility of city, district or regional authorities.

There is rather little in the way of systematic studies of FDI agencies and their operations. Wells and Wint (1991) analysed the link between the degree of public or private sector involvement and the effectiveness of investment promotion based on a sample of 10 promotional agencies with offices in the United States. The authors found an organisational continuum extending from the traditional Government organisation to the wholly private sector organisation. They concluded that quasi-governmental and private promotional organisations had been more effective, perhaps because they were successful at capturing the strengths of both the public and private approaches. Certainly private sector skills were accepted as being necessary in the image-building activities of advertising and public relations, although problems were identified with subcontracting these functions, such as excessive costs where contractors were not subjected to competitive pressures and difficulties in measuring benefits. Seconding employees from the private sector was another technique for acquiring resources and marketing skills that were not available in-house; Investment Canada and the Invest in Britain Bureau in the United Kingdom were two agencies that pursued this approach.

In other work, focusing on developing countries, Wint (1992) studied the changes taking place in the screening of FDI in light of the trend towards more liberal and welcoming attitudes to FDI. Changes in the direction of greater administrative centralisation on FDI matters were widely observed, but to be effective, the centralisation of the screening decision was also required and was welcomed by foreign investors because of the speed that such changes implied for decision-making (see also Encarnation and Wells, 1985). These reforms now taking place in developing countries have long been accepted in Europe and other developed nations as witnessed in the emphasis placed in the promotional literature on "one-stop shops".

Research, again in developing countries (Wint, 1993), addresses the theme of the present article more directly by studying the services that Governments provide to investors *after* an investment project has been approved. According to Wint (1993), post-approval services are those that come into place *after* the applications for entry or incentives have been approved. They include assisting investors to implement their projects by obtaining all necessary permits and approvals, such as permits to import equipment and raw materials, work permits for expatriate staff, permission from the local authority to buy and lease land, the installation of telephones and communication equipment, etc. The research established a difference between screening structures and the provision of post-approval services: countries that used coordinated screening structures placed more attention on post-approval services (with the creation of separate departments to provide services to approved investors) than countries with centralised screening structures. Even with the establishment of separate service structures, lengthy delays in implementing investments were still experienced. Wint was highly critical of these so-called "one-stop shops", indicating that they were rarely what their title suggested, with disenchanted investors labelling them "one-more-stop shops" (Wint, 1993, p. 87). Problems arose from the lack of senior staff in service operations who could speak for their units and from conflicts between service operations and Government departments.

In the context of this article focusing on the European Union, the after-care function is a different one, including assistance with the implementation of the investment project through start-up and with both short and long-term development of the FDI project. However, the problems raised in developing countries concerning failure to provide one-stop service provisions pose a similar challenge in Europe. Numerous organisations are almost inevitably involved, and the centralisation versus coordination debate is extremely important.

There has been very little in the marketing literature on the topics of FDI promotion, attraction and after-care, although in *Marketing Places* (Kotler, Haider and Rein, 1993) the issues associated with attracting investment, industry and tourism to cities, states and nations have begun to be addressed. Emphasis is placed on the need for public/private partnership in economic development activities in order to avoid fragmentation and rivalries, ensure continuity (programmes are sometimes started and stopped as leaders and strategies change) and make use of private sector expertise.

The topic of after-care programmes is of obvious interest to FDI agencies in the European Union, but has been discussed little in the regional de-

velopment literature. One of the few exceptions concerns the work of Ash Amin *et al.* (1994) who included after-care programmes as one element of good institutional practice towards mobile investment. In fact, a number of the other elements could fall within the context of after-care as defined in this article; these include: understanding the needs of firms; establishing a relationship of trust with them; supporting local managers in attempts to upgrade plant status; providing assistance to potential suppliers; monitoring the purchasing, research and development and training performance of investors; and supply-side measures designed to upgrade regional location attributes.

The meaning and challenge of after-care programmes

Extending the work of Wint (1993), after-care programmes comprise all potential services offered at the company level by Government and its agencies designed to facilitate both the successful start-up and the continuing development of a foreign affiliate in a host country or region, with a view towards maximising the local economic development contribution of that affiliate. Related activities can be planned at the regional or national levels to ensure a supportive environment for the realisation of company-specific aims. Excluded from this definition is assistance with the search process, since this is a pre- rather than an after-care service, although similar organisational challenges and, indeed, the same organisations are involved in the search process services as well. From the perspective of the FDI agency and related bodies, after-care programmes have the objective of maximising the long-term net economic benefits of a foreign affiliate to the host country or region. Economic benefits are not measured in terms of employment *per se*, but include wider labour market and productivity issues, as well as trade and balance-of-payments impacts, technology transfer and innovation effects, and local linkages and spillover effects.

The justification for after-care programmes is two-fold:

- First, it is an essential component of customer orientation and customer care and, in that sense, is analogous to after-sale services. A foreign affiliate, having been attracted to a particular location, has a legitimate expectation of follow-up services. There is a link, moreover, to the marketing concept of post-purchase dissonance, Henry Assael (1992): the after-care service may assist investors to avoid the experience of cognitive dissonance often associated with making a purchase by convincing them that the correct location decision has been made. From the Government agency perspective,
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customer-care activities reflect the recognition of the local identity of the FDI project, the desire to project that identity and concern for the project's problems and performance. If the concept of local identity can also be transmitted to, and accepted by, the investor, there are likely to be benefits from greater community involvement by the foreign affiliate. In such circumstances, moreover, the affiliate may have an important long-term role in marketing the area to new potential investors who may visit the plant as part of their site-search activities.

- Second, foreign affiliates evolve and develop over time in response to a wide variety of variables, from the global and regional strategies of the parent firm through the interplay of corporate networks in Europe to the performance and competitiveness of the affiliate. Foreign direct investment and related agencies have little influence on many of these variables, but may be able to influence some of them. And even at the macroeconomic level of decision-making, the case for being involved in monitoring the strategies of TNCs has been argued (Hood and Young, 1980). It has been shown that important information can be obtained through the monitoring of TNC activities, information which may then be employed to support or defend the local affiliate. Changes in the activities of foreign affiliates may be indicative of evolving networks, with positive or negative effects for the local economy (Young, Peters and Hood, 1993; see also studies relating to the effects of regional integration on the organisation of TNCs in the European Union in UNCTC, 1990; UN-TCMD, 1993; and Robson, 1993). After-care programmes are designed to exploit the opportunities and minimise the threats of highly dynamic TNC networks.

After-care services

Table 3 lists the series of services that might conceivably be included within a comprehensive after-care programme, distinguishing between *strategic*, *operational* and *informational services* specific to an investing company and *general supply-side* services which are critical, but support the development of both indigenous and foreign companies within a region. The strategic and operational services are the focus here.

Services of a strategic nature are designed to support an affiliate within its transnational corporate framework. For some of these services, there is a

Table 3. Potential after-care services

After-care services		Illustrative issues in after-care ^a
1. Strategic		
Strategy and planning	•	Presenting case for new investment to corporate headquarters; assisting in intra-group bids for new projects; preventing adverse effects of rationalisation.
	•	Presenting case for new activities at plant level, e.g., research and development, marketing.
	•	Identifying joint-venture/strategic-alliance partners.
Sites and property	•	Sites and locational infrastructure.
	•	Property: advance factories, adaptations and extensions.
Financial assistance	•	Presenting case for, and/or packaging available financial incentives.
Human resources	•	Development of human-skill capabilities.
Research and development	•	Innovation and new product development: research and development, marketing research.
	•	Joint research with universities etc.; research funding.
Manufacturing	•	Upgrading.
Procurement	•	Identifying and/or developing supply sources and supplier capabilities.
Marketing and sales	•	Market and technological forecasting.
2. Operational		
Sites and property	•	Site maintenance, bus services etc.
Financial assistance	•	Implementation of grant provisions.
Human resources	•	Recruitment, housing, schooling and education; arranging training and identifying appropriate training courses; legislation.
Research and development	•	Funding applications; staffing.
Manufacturing	•	Quality issues; computerisation.
Procurement	•	Standards, movement and sources of inputs.
Marketing and sales	•	Customs issues; foreign exchange matters.
Finance/accounting/legal	•	Taxation; banking.
3. Informational	•	Wide range of requirements.
4. General supply side	•	Investment in scientific, managerial, technical skills (to upgrade a region or skills as a whole).
	•	Investment in health, education, training and leisure facilities.
	•	Investment in transportation and communications infrastructure.
	•	Assistance to develop supplier capabilities.

^a The type of support to be provided is likely to be finance, expertise, contacts or influence.

close link with the conventional promotional activities of FDI agencies, since mobile investment projects are typically subject to strong competition from investment agencies in other European States. It is well-known that targeting by FDI agencies is not restricted to promotional operations at the level of headquarters in the home country, but includes promotional operations at the level of affiliates in neighbouring states. This is undoubtedly the most challenging area for after-care programmes, but there is no evidence of comprehensive programmes being devised to tackle it, partly because of doubts about the contribution that FDI agencies can make. On the other hand, issues relating to *sites and property*, *financial assistance*, *human resources* and the business functions of *research and development*, *manufacturing*, *procurement* and *marketing* have major implications for after-care programmes at both the strategic and the operational levels. Table 3 draws out the distinction between day-to-day operational matters, which may concern a myriad of different issues, and the more fundamental strategic components. To give only one or two illustrations of the former: one company interviewed expressed concern about the lack of nursery provision locally and the willingness to go into partnership with other firms to set up nursery facilities. In another instance, misleading information given by a freight forwarder had led to problems with the payment of duties into Spain and Portugal, and the FDI agency had been requested to intervene.

Among the strategic dimensions, sites and property are clearly fundamental. The evidence on locational decision-making seems to indicate that property becomes important when selecting the site of the plant rather than during the host country screening. Given the increasing importance attached to the speed of start-up, however, property may now be a more critical component in locational choice, in which case investment in advance factory provision becomes significant as a general supply-side issue (point 4 in table 3). Linked to this is the need to identify high amenity sites with a particular set of specifications. In the case of after-care programmes, flexibility and responsiveness in handling foreign-investor requests on adaptations, extensions etc., as well as in dealing with matters of site maintenance and servicing, are paramount. Although national financial assistance packages are negotiated prior to start-up, there are still many items left to after-care programmes, most obviously financial assistance for training and spending on infrastructure. Investment assistance arises again as an issue when expansionary projects are under consideration.

Along with factory space and training, supply sources and supplier development were the most important after-care items mentioned by foreign af-

filiates interviewed. A wide range of initiatives existed to encourage the development of local suppliers and increase local sourcing, including supplier clubs, supplier exhibitions and even individual company-assistance programmes in upgrading technology and products. Foreign investors' response was mixed, which raises a point to be expanded later, namely that foreign affiliates' experiences and expectations are very diverse and, hence, the after-care challenge is considerable.

A highly developed industrial skills base, advanced educational, training and research opportunities, well-developed and sophisticated transportation and communication infrastructure, and high quality health, education, housing and leisure facilities are critically important in attracting FDI projects and encouraging expansion and upgrading (Amin *et al.*, 1994; Netherlands Economic Institute, 1992). Since this requires heavy and long-term investments and a closely integrated approach by public and private sector bodies (at the subnational level at least), the requirements of after-care programmes are very different. Not to mention them, however, would give the misleading impression that after-care is purely a matter of firm-specific assistance at the microeconomic level.

Two additional issues emerge from table 3 that require elaboration:

- The first is a distinction between corporate and affiliate-level after-care programmes. The strategic development of the affiliate requires an understanding of global and European corporate strategy, intra-corporate performance and prospects, etc., and this awareness can only be fully acquired from discussions at the corporate and/or regional headquarters. Such discussions allied to analyses of corporate and affiliate financial reports may in fact enable the after-care agency to understand better the strategic position of the affiliate. This may be an important means of gaining credibility.
 - The second issue concerns the distinction between Government and non-Government (traded) services in after-care programmes. This is a very tricky question and one that will be considered again later in the article. In essence, the after-care issues listed in table 3 are, in principle, those for which there is no presumed private market. Some, however, do require liaison between the public and private sectors for delivery by the latter, in which case the intervention of public bodies has to be questioned. Added to this is the fact that if more intermediaries are operating between the investor and the attracting location, then the emergence of "fee-for-service" work in after-care programmes may be expected.
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Investor requirements from after-care programmes

The identification of the potential after-care services that might be provided by FDI agencies and related bodies needs to be set alongside investor requirements. The latter differ widely, linked to *investor experience, investor policies, investor size and technology, development stage* and (perhaps) *nationality*. In regard to experience, the first-time international investor is clearly in a totally different situation than a globally networked TNC. A United States electronics company was in the former category. It had no European property team to handle pre-start-up negotiations with adjacent landowners and local authorities and therefore relied heavily on the support of the FDI agency on this issue, as well as on the recruitment of labour, the identification of appropriate training providers, community relations, etc. In this instance, the company requested a comprehensive after-care service for, say, one year after the project was announced; the company would brief the after-care team fully and internalise it into its own development processes. The integrated, networked TNC (at the global or regional levels) may, on the one hand, be more self-sufficient and less reliant on after-care services, especially at the operational level; on the other hand, the possibility of reinvestment, rationalisation and reorganisation taking place within the TNC group gives rise to opportunities for Government and its agencies to provide after-care services focused on strategic lobbying at the corporate level and on improving plant performance.

Investor policies also place varying demands on after-care programmes: to illustrate, a long established United States electronics firm had a policy of acquiring pieces of land and managing them through its own in-house property division. The firm undertook its own feasibility studies in terms of structure, geology and site services and built and owned highly specialised factories. Although there were no after-care requirements for site and property selection, the company still had needs in terms of training and housing.

The size of the foreign investor and the type of technology raise distinct issues concerning expectations from after-care programmes. In high tech (especially large) companies, the foreign affiliate is aware of its significance and bargaining power within the region or country and hence will expect a high level of after-care services in the areas of its choosing. There is a likelihood of coincidence of interests with the after-care agency, which, given scarce resources, will allocate these to the foreign investors who generate the highest returns in terms of economic development. If the FDI

agency targets its promotional efforts so as to attract firms that match the country's or region's competitive advantages (Young, Hood and Wilson, 1994), active after-care policies would be an essential follow-up.

The development stage of an investment project places different demands of varying intensity on after-care programmes. During start-up and the first two years of operation, there is likely to be constant interaction between after-care providers and the company, mainly on operational issues. Typically, in the subsequent period, there is both a lower requirement for after-care services and less contact with the after-care providers as the company becomes integrated into the region and focuses on other priorities. Yet, this is the stage when the longer-term strategic links should be nurtured to ensure an understanding of corporate policies at the TNC group and affiliate levels, and enable the after-care providers to interact sensibly and constructively on issues relating to the strategic development of the affiliate. Although the after-care agency may be aware of the 3-5 year plans for the affiliate, the pace of change of technology and market demands may well require abrupt and radical shifts in policy, with major implications for plant role, skill mix of the workforce, demands on suppliers, etc. Without continual involvement and monitoring, the opportunity to enhance plant performance and the role of the affiliate within the TNC group may be lost. This is quite apart from longer-term developments emanating from evolving global or regional corporate strategies: the Single Market was clearly a major factor shaping corporate strategies, and the process is ongoing—the enlargement of the European Union in 1995 and developments in Central and Eastern Europe may well trigger a new pattern of corporate reorganisation.

After-care requirements may be influenced by the nationality of the investor. There is a belief that, for cultural reasons (or, perhaps, due to inexperience in operating abroad), Japanese investors appreciate a close “key-account” relationship with FDI agencies at the time of search and investment decision-making. If so, it is important to extend this type of relationship to the after-care stage.

The challenges for after-care services

In considering the provision of after-care services to foreign investors, it is necessary to highlight the challenges that need to be tackled:

- *The credibility and capability of after-care providers.* There is no question that the management of many foreign affiliates will view
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public-sector officials with scepticism, sometimes even hostility. Building a relationship of trust and openness means that after-care personnel must be capable and credible. This is not a problem for certain issues such as property for which experienced estate management teams exist throughout the public sector. However, having sufficient understanding of issues such as corporate strategies, advanced manufacturing techniques and high tech supply capabilities to be able to engage in a constructive dialogue with TNC management (the affiliate and, possibly, at the corporate parent-firm levels) is also necessary. The issue of multiple organisational involvement to deal with a variety of issues is discussed below; but when considering the range of after-care services in table 3, it is obvious that no single individual or organisation could handle all of these tasks, although it may still be possible to have a key-account service or a single point of liaison.

- *Continuity and customer responsiveness of after-care services.* Managers of foreign affiliates change positions frequently. Assignments of 2-3 years are normal, especially for expatriate personnel; even indigenous managers may be moved internationally within a TNC group to gain experience or as a result of a promotion. Within the after-care agencies, too, the same problem may occur: staff with knowledge of corporate strategies, manufacturing or financial issues may be targets for recruitment elsewhere. Building and retaining credibility is not, therefore, an easy task. In a customer-responsiveness context, response time-scales are another problem to be tackled by after-care providers: FDI agencies involved in the cutting edge of selling and negotiation recognise this, but not always local authorities and public sector organizations.
 - *Proactive or reactive approaches.* Interviews of after-care agencies indicate that, after start-up, contacts with foreign affiliates gradually diminish. There may be intermittent exchanges on issues such as property, with relationships developing at a technical level and public-sector providers acting mainly in a reactive capacity. An annual or biennial visit programme might be arranged to review general corporate progress and to evaluate, say, compliance with grant provisions; at least in the cases analysed, these reviews were not systematic and were not followed up. Moving to a systematic proactive approach is clearly essential, but it is also very resource and skill intensive (as outlined above). Nevertheless, on issues such as the analysis of training needs, it should be possible for the after-
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care providers to add value for the company, and perhaps use this as a point of entry for wider involvement.

- *Multi-site TNCs.* It is evident from this discussion that the range of after-care issues is very wide and impinges upon many different skills, professions and organisations. Compounding this in some cases may be the existence of multi-site TNCs; even at the sub-national level, TNCs may have plants in different regions, so that a centralisation or coordination problem exists not only within, but also across regions.
- *Organisational involvement.* In research undertaken in a number of cities and territories in France, Laurence Texier and Jean-Paul Valla (1992) identified more than 20 public and private organisations in contact with potential foreign investors. Similarly, a range of organisations could be involved in the provision of post-investment services, albeit with different intensity. The above-mentioned research revealed that, even within the same country, the regional development structure may be quite different and hence the need for different organisations to operate. Similarly, in after-care services, the range of providers may include architects and builders, of course, but also fire services, river purification boards and the various public sector bodies listed in table 4.
- *Foreign direct investment and regional economic development.* The challenge of coordinating and integrating the after-care services of widely disparate bodies is exacerbated by the fact that regional economic development depends on a wider number of factors than just FDI. Included in business development and after-care programmes could be, among other things, small-firm initiatives, sectoral initiatives, innovation initiatives and trade-related initiatives. Even when considering the foreign investors alone, the existence of after-care programmes is only one tool for promoting regional economic development through TNCs.

Possible models of after-care programmes

In analysing alternative models of after-care programmes, it is important to re-emphasise that after-care services cannot be considered in isolation from the FDI attraction process as a whole and from targeted promotional policies for FDI in particular. Most, but not all, agencies in the European Union now use some form of targeting, even if this is not taken too far for fear

Table 4. Public sector involvement in foreign direct investment after-care: a Scottish case

Organisation	Issue/activity
<ul style="list-style-type: none"> • Located in Scotland • Scottish Enterprise National • Scottish Office Industry Department • New Town Development Corporation • Regional council • Other local authorities 	<ul style="list-style-type: none"> • Troubleshooting in early years. • Potential new developments followed at the corporate and local levels. • Specific focus areas, such as: <ul style="list-style-type: none"> – manufacturing services; – supplier development; – 'just-in-time'; – land. • Government grant-payments monitoring. • Factory and land related. • Local trouble shooting. • Local business development. • Specific focus areas such as: <ul style="list-style-type: none"> – company inter-trading; – software clubs. • Selected cases only. • Linked infrastructure with some training. • Minimal.

of over-reliance on any one sector. In putting forward new proposals for targeting, it is worth mentioning that this approach would require a more direct feedback loop between inward investment agencies and related economic development activity. It presumes an active and targeted set of policies in areas such as supplier development, skills enhancement to support reinvestment programmes, and possibly even export promotion in order to capture economic gains and enhance the competitiveness of the attraction environment (Young, Hood and Wilson, 1994).

Linked to the need to take a holistic approach to FDI policy is the requirement for host-country agencies to continue to maintain and review the operations of TNCs within a particular locality, irrespective of the model of

after-care employed. When targeting is attempted, there should clearly be considerable preparatory work undertaken on particular companies, including the regular updating of earlier information, some of which could certainly be derived from company databases and analysts' reports. An even more direct link with the promotional activities of the FDI agencies occurs when reinvestment projects are identified and the marketing and selling functions are undertaken by these agencies.

Table 5 presents various models of after-care programmes, indicating the type of foreign investor likely to be targeted for after-care services, the time period to be covered, the nature of the service, and the advantages and disadvantages of each model. The integrated model I is the most ambitious and costly, and envisages after-care as a part of a comprehensive regional economic development plan. It requires coordinated commitment from the wide range of public sector agencies involved in economic development, as well as cooperation from the foreign affiliates that need to be integrated into and committed to local economic development (requiring a change in thought processes for many transnational managers used to thinking exclusively in terms of corporate performance). This after-care activity would also recognise the need to include indigenous companies; indeed, large domestic enterprises with headquarters outside the region pose many of the same challenges as foreign affiliates.

The after-care model II reflects an attempt to replicate at an after-care level the type of promotional service undertaken by FDI agencies. To match the latter, the after-care team would be organised to cover foreign investors grouped by nationality, but alternative approaches might involve sectoral specialisations; large and small firm specialisations; or a distinction between strategic and operational issues. Further work is required to establish the size of the team necessary; because the span of responsibilities is very wide—from strategic to operational, in some approaches—the group of companies to be handled by any single individual can not be large. The after-care team would act as a single door for after-care services; to be effective, this would extend beyond redirecting inquiries to the appropriate department or agency, to initial visits in association with the latter and certainly continuous monitoring of relationships and feedback.

The project-based model III represents an attempt to direct resources to key, specific elements in after-care programmes rather than cover the entire span of after-care activities. Obvious areas for initiatives are supplier development, where the aim is to build up the supplier base as a means of increasing the multiplier effects of FDI; human resource development where, for

Table 5. Models of after-care

	I (Investor)	II (Business Plan)	III (Project-based)	IV
Types of foreign investor	Detailed knowledge of entire stock (foreign and domestic), regularly updated. Priority ranking according to economic development potential.	Detailed knowledge of entire stock. Investors ranked according to priority and after-care provided accordingly.	Related to target segments, focusing on supplier development, human resource development, manufacturing services, research and development etc.	Priority to large, high tech, high profile and/or Japanese investors.
Time period for after-care service	Long-term, against clear, quantifiable objectives.	Long-term, but priority in early years of project and when potential reinvestment/restructuring identified.	Dependent on time period of project.	Mainly first 2 years after start-up. Annual visit to priority companies, otherwise as requested.
Nature of after-care	<i>Informational and operational</i> to all investors; plus <i>strategic and general supply side</i> to developmental facilities. After-care integrated with all regional economic development initiatives.	<i>Strategic, operational and informational</i> depending on priority of investor.	<i>Strategic and operational</i> linked to project, plus general supply side (e.g. assistance to develop supplier capabilities).	<i>Informational</i> plus limited <i>operational</i> (local troubleshooting). May be linked to visits relating to grant award compliance.
Evaluation of approach	Pro: Balanced and integrated approach to economic development. Can avoid excessive emphasis on TNCs.	Pro: Single-door for TNC after-care. Committed and systematic after-care services. After-care skills developed by govt. agencies and recognised by TNCs.	Pro: Highly focused. Links company and general regional economic development efforts.	Pro: Inexpensive. May identify some areas of opportunity to aid affiliates. Assist companies to develop their own networks.

Table 5. Models of after-care (*continued*)

I Integrated	II After-care team	III Project-based	IV Company-friendly
<p>Con: - Very costly and long-term.</p> <p>- Major commitment needed from wide range of public sector agencies.</p> <p>- Coordination problems may lead to excessive bureaucracy.</p> <p>- Assumes TNC co-operation.</p>	<p>Con: - Costly and may lack some focus depending on method of organising service.</p> <p>- Success dependent on integrating effort with other resources.</p>	<p>Con: - Costly and returns mainly long-term</p> <p>- Difficulty of obtaining company co-operation (especially among competitors).</p>	<p>Con: - Cause resentment among some TNC affiliates.</p> <p>- Laissez-faire approach may compare badly with that offered to sister affiliates in other host countries.</p> <p>- Regional economic development largely left to market.</p>

example, training programmes might be initiated to assist the personpower requirements of a number of foreign investors in a particular industry, or assistance may be provided with analyses of training needs or programme design; research and development, where the intention might be to help develop a research cluster through financial "pump-priming", to facilitate university/company research linkages, and so on. If this model were followed, it would probably also have to include the "company-friend" model (discussed below) to deal with other after-care issues.

The "company-friend" model IV *per se* is the minimalist approach to after-care programmes. The major problem is that, because of a lack of regular contacts with FDI agencies, it would be more difficult for foreign affiliates to build relationships with the local firms. To be sure, the "company-friend" concept could help foreign affiliates build their networks of contacts in the period up to and after start-up (which might indeed be sufficient for some firms), but little else might be achieved.

With the exception of the "company-friend" model, all the models presented in table 5 are probably more formal and systematic than the existing practices, reflecting the view in this article that greater emphasis needs to be placed on after-care services in the present stage of the European Union's evolution. If agencies do commit themselves to more active after-care policies, model IV may be the most likely option as a first step, given that the benefits of such policies would have yet to be fully proven. But other factors influencing the decision on the model to be adopted might include:

- The model of economic development applied. In a *laissez-faire* situation, after-care programmes would not be provided or would be largely left to the market.
 - The importance of FDI to the region, and the size of foreign affiliates. The contribution of FDI to jobs, investment, exports, etc. means a stronger incentive for after-care programmes in the less-favoured, mainly peripheral areas of the European Union. In terms of the size of foreign affiliates, a limited number of large affiliates would provide a greater incentive to invest in after-care programmes (and would be easier to manage) than a large number of small affiliates.
 - Availability of finance and attitudes to risk, given that the pay-offs are uncertain and possibly long-term.
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- **Competitive advantage.** It has been noted that the skills involved in attracting FDI are transferable and have been learned by many investment agencies in the European Union. Unlike the position in the late 1960s and early 1970s, when the Industrial Development Authority of the Republic of Ireland undoubtedly had a competitive advantage in attracting FDI (Watzke, 1982; Wells and Wint, 1990), the main differences currently reflect the level of resources that FDI agencies commit to promotion and attraction. With after-care programmes, arguably, there is scope for one or more agencies to gain a significant competitive advantage from systematic and innovative initiatives in the provision of after-care services.

Two key subsequent issues concern, firstly, the organisation best suited to after-care responsibilities, and, secondly, the size of the geographical area within which a particular after-care team would operate. It is difficult to be specific on these questions because circumstances differ enormously between countries, and any after-care activity will have to be integrated within the existing public sector organisational framework in countries and regions. Even the structure of FDI agencies is not uniform, with both national and regional agencies operating in the European Union. Because of these difficulties, comments will be restricted to establishing some of the principles that might be followed in making decisions on these issues. As regards the appropriate organisation, it can be argued that the FDI agency (in so far as its primary responsibilities relate to investment promotion), while the obvious candidate, is not best suited to after-care programmes. The skills of marketing, selling and negotiations within an FDI agency are different from those needed for after-care services: this is the case both in terms of its strategic role, where a longer-term, analytical emphasis is required (although if detailed targeting has been undertaken by the agency these skills are likely to be present) and its after-sales service function. For reasons given earlier, of course, the entire process must be planned and coordinated as a whole, and there must be a clear division of roles. Especially important in the latter regard will be the hand-over from the FDI agency responsible for *identifying* sites and properties, to the after-care agency responsible for *developing* sites and properties in collaboration with the foreign affiliate.

It may be contended that the geographical area covered by an after-care agency should be smaller than that handled by FDI promotion agencies. There are significant economies of scale in advertising and promotion, whereas after-care is chiefly a personal service in which the advantages lie in being close to the customer. Coordination across a range of bodies would

also be easier in a smaller geographical area, although the issue of multi-site TNCs has to be tackled. Much depends on the size of the country: in the case of Ireland—a small country—it would be feasible and desirable to have all operations undertaken by the Industrial Development Authority, but the same would not be suitable for large countries such as Germany, France or the United Kingdom.

The FDI agencies in Europe are either part of Government departments or publicly funded and quasi-governmental. The studies reviewed earlier linked effectiveness to greater private sector involvement either through the use of private promotional organisations, or by seconding employees from the private sector. In terms of after-care programmes, the crucial requirement is that the public sector should be able to add value through its services and/or offset market imperfections. Such additionality would seem to exist with property provision, financial assistance and the range of general supply-side investments that represent public goods. Research and development also fit into the latter category given the likelihood of under-investment in basic research because of the ownership problem; also business development at the regional level has not historically been undertaken by the private sector perhaps because the activities involved are not easy to specify and hence to subcontract. The strategy and planning activities could, conversely, be subcontracted to international location or strategy consultants, but this would prevent the development of important personal relationships (unless private consultancy staff were seconded to after-care agencies). The public/private debate is an important one at a time when there is a general trend towards a greater privatisation of services and criticisms of non-accountable, tax-funded public bodies. Unlike FDI promotion and attraction, both sharply focused activities, some after-care services could be more difficult to define and to evaluate. The latter is the key issue: clear objectives, quantified as far as possible, must be set to facilitate evaluation and the comparison of public versus private sector benefits and costs, and the role of the public sector in facilitating, coordinating or undertaking these activities.

Strategic considerations

There are two basic assumptions underlying the proposals put forth, of which the removal of either would change the whole complexion of the arguments presented. The first is that, from a TNC perspective, if a country (or region within a country) is committed to the attraction of FDI, it is reasonable to assume that there will also be some level of commitment to after-care

programmes. The second is that, from a host country perspective, there are both offensive and defensive reasons for taking a continuing interest in the development of foreign affiliates, perhaps even beyond that taken towards indigenous business. There may be inherent contradictions within these two assumptions. At the very least, there will be situations in which the private and public interests are not the same; in extreme cases they could be fundamentally incompatible. There is little doubt that the underlying model presumed throughout this discussion is a relatively benign one, within which a TNC and a Government have effective working relationships, and the policy environment is both relatively secure and transparent. More adversarial models could be posited even within the European Union, although there have been strong trends towards convergence at the supportive end of the spectrum over the past two decades.

Even within the assumption of a benign model, there are issues of balance and perspective. As regards balance, there is the issue of after-care services being taken to an extreme in a manner which consistently builds up the expectations of TNCs and enhances their bargaining power. Experience shows that this is a particular problem when a single TNC is a major employer in, say, a town, dominating the local labour market and having a powerful multiplier effect for the neighbouring region. As regards perspective, this is a crucial area of debate. For example, it will be evident that a TNC might welcome a strong after-care programme during its expansion phase, but might find it less desirable during rationalisation, especially if that involves dealing with investment agencies in several regions, all of which have an equal interest in seeing that all TNC plants remain operational. In those situations, the relationship between TNCs and some host Governments may be significantly impaired and could even lead to conflict. In view of the substantial intra-European Union flows and stocks of FDI, most parties have a vested interest in the constructive resolution of such conflicts, even if they lead to employment losses by a specific company. Stated in another way, much of the fabric of the European Union rests on a framework of mutual respect for corporate discussions about cross-border investments.

This raises another substantial issue, namely, whether after-care as a concept is really a zero-sum game. What would be the consequences in the context of the European Union if every country were to adopt any of the models set out in table 5? This is by no means a simple question and can be best addressed by considering specific situations. Starting at the corporate level with the example of a United States company which has established only one manufacturing plant in the United Kingdom to serve the European

Union market: in the early years, the basic strategic choice of the TNC might be the extent to which it transfers production of an increasing part of its product range to its plant in the United Kingdom. After-care activity could be directed towards enabling that process in the context of the contribution to local economic development (see earlier definition) and improved competitiveness for the company. The company will, however, develop its production and logistics strategy towards the European Union as a whole and it is unlikely to allow the plant to grow beyond a certain level. In effect, despite the provision of after-care services to that plant at the subregional level, the company will probably open other plants in other countries if the market requires it to do so. In that sense, there are inherent limits to the aims of after-care programmes in any single geographical setting.

The zero-sum game issue, however, is likely to be much more pertinent in the reverse situation in which a mature network of plants is being rationalised as a result of changes in technology and markets. One food company with which discussions were held in the context of this project had 15 of its 44 European plants under detailed review in the context of a major closure programme. It was fully recognised that, while the local after-care programme was one variable influencing plant performance, it was only marginal; the end product of the rationalisation was considerable employment loss in several countries. There are real dangers in such circumstances that after-care programmes become yet another aspect of competitive bidding between countries, a point recognised in the arguments for an FDI policy framework at the level of the European Union (Young and Hood, 1993).

With all these considerations in mind, there would appear to be some conditions that have to exist before after-care programmes, as discussed here, could be implemented meaningfully:

- Clarity and consistency of policies towards FDI attraction and development. This, in turn, tends to generate a view of long-run net benefits from pursuing these policies.
 - An equally clear understanding on the part of Governments and their agencies of the limited economic development gains that flow from pursuing an after-care model of any type. Thus, the opportunity costs of expenditures on after-care programmes compared with other uses have to be clearly highlighted.
 - Assuming that after-care initiatives are likely to be led by the Government and its agencies, both the quality and business ethics of the relevant officials are likely to be major issues in determining
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the credibility of these initiatives. However, this is an issue for all public sector activity and not just after-care programmes.

- A close coalition of public and private sector interests operating in support of an FDI attraction effort at the local level which enables the after-care programme to consist of a mixture of traded and non-traded services in a mix as required.

These four conditions would have to hold at least to some degree before any of the models in table 5 could be implemented. In some ways, this is ironic, since it could be argued that one of the principal determinants as to whether a foreign affiliate requires after-care services is the environment within which it operates. Thus, for example, there would be a strong case for models III or IV (table 5) being implemented in emerging and volatile FDI environments, such as those currently found in Central and Eastern Europe. The investment climate as a whole and the nature of the economic and social transition make countries in that region prime candidates for a high level of post-investment support which, at present, is almost wholly absent. The reasons are primarily financial and partly cultural, as TNCs are assumed to have the experience to operate in any environment. Yet, in these countries, the list of potential after-care services would far exceed those specified in table 3.

The experience in the European Union to date suggests that these four conditions hold and are best represented in countries or regions in which there is a well-established FDI stock and a sound track record of performance (e.g., in many regions of Ireland, the Netherlands and the United Kingdom). In that sense, after-care emerges as a mature service in a mature and supportive environment—dimensions that are absent in the context of Central and Eastern Europe.

Finally, there is another important strategic aspect of after-care programmes, namely, their relationship to the regional and industrial policies of the present and future European Union. The provision of after-care services, even in their most rudimentary forms, are resource-intensive activities. This, in turn, raises the question of whether all the direct and indirect costs associated with after-care programmes could be incorporated in approved regional policy guidelines, since it is generally the areas operating under those rules that are most successful in attracting FDI. Further, and in reference to the more elegant models in table 5, there are open questions as to when the boundary between customer service to a foreign investor and anti-competitive behaviour is crossed. It would probably be true to say that no

European Union country is yet at that boundary, but it will have to be kept under review as competition for FDI intensifies.

Conclusions

The fundamental question that has to be raised and answered in the context of after-care programmes relates to the potential benefits from committing significant resources to these programmes. Several answers can be given: first, Governments and their agencies have a major stake in the long-term development of companies within their regions, and TNCs are of particular importance given that they are often growing faster and that they are often more productive and more export-oriented than indigenous enterprises. Second, the growth of foreign affiliates within a worldwide corporate framework is chiefly related to their performance, and any assistance that public sector agencies can provide to help improve that performance is clearly desirable. Third, TNCs, being subject to global competition, the Single Market, the stop-start progress to economic and monetary union and possible enlargements of the European Union, among other things, are constantly reappraising their corporate strategies. The potential for public sector agencies to influence strategic change and thus assist foreign affiliates may be limited, but the pay-off (if successful) is very high. Further study is needed in this area. What is important to note, however, is that a pro active approach, beginning with developing and maintaining a clear understanding of global and corporate strategies—what may be termed strategic monitoring—would represent considerable advance from the present situation. It seems that many efforts by FDI agencies in relation to after-care services come down to reactive responses in managing the downside of projects that are vulnerable to intra-European competition. ■

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