

STICKY LOCATIONS

A number of pressures have been at work influencing the global business environment over the past two decades, and corporations have been adapting to the pressures in two ways. First, they have followed a path of internationalisation. The growing level of internationalisation is evident in the level of foreign direct investment and the activity of foreign affiliates relative to the parent organisation in the home country.

Organisational direction

Three organisational models are emerging as a result of the internationalisation of corporations: stand-alone, simple integration and centre-less.ⁱ

Stand-alone organisation structures are characterised by differentiation, specialisation and function.

Attitudes and behaviours are tied to a vertical hierarchy, and command and control functions are centralised over sets of functions and activities. In this case, internationalisation takes the form of multi-domestic activity and investment. Within this structure, most foreign subsidiaries, outside the resource-based and labour-intensive manufacturing sectors, operate on a 'stand-alone' basis and trade little with each other. This form of structure was most prevalent up to the 1970s.

During the 1980s and 1990s, there was a change in the nature and character of corporations pursuing their internationalisation strategies. Within stand-alone structures, this was reflected in the deepening of value chains within functional units and an increased propensity for these units to engage in higher order (command and control) activities. This was most clearly reflected in the geographic distribution of research and development (R&D) and the location of patents registered by corporations. The resulting organisational shift in the first instance has been toward simple integration, foreign subsidiaries of the parent corporation becoming more influential and independent.

Sean Duggan considers the internationalisation of corporate investors and proposes that the long-term winners and losers will no longer be simply companies themselves but equally the locations in which they choose to base themselves – or not, as the case may be – across the world. Here, he explains why destinations worldwide are facing a new challenge: become 'sticky' or risk missing out.

More complex, integrated structures have only recently emerged as corporations have become increasingly lateral and networked, with functions distributed across business or service units or outsourced entirely. This requires the corporation's separate units to communicate, collaborate and interact. Units have become interdependent, and command and control is distributed, leaving a minimal core with responsibility for the overall direction and strategy of the corporation as a whole. The objective is for the corporation to become flexible and be able to reallocate effort and resources quickly and smoothly in response to pressures exerted by the external environment.

Whilst three broad types of organisation structure have been considered, 'stand-alone' and simple integration are the dominant corporate forms. There are still very few global examples of truly 'centre-less organisations'. The reason is that complex integration may not be appropriate for all types of corporation; it is best suited to industries in which a wide range of components and skills are involved and in which the unit cost of transporting components is low. Where these prerequisites are not met, simpler structural forms are sufficient.

Perceptions of geographic, social and linguistic 'distance' also bias corporations away from complex integration or 'centre-less' structure. As a result, complex organisation structures are confined to industries such as information technology and motor manufacture. Examples of this type of organisation include IBM, Dell, Ford and General Motors. The internationalisation of corporations has brought with it a correspondent growth of foreign direct investment (FDI) flows. FDI has been one of the defining characteristics of the world economy over the past two decades. Apart from the period of recession during the early 1990s, the global flow of FDI has continued to grow at an unprecedented rate, well in excess of growth in world production and exports.

The location paradox

The combination of external pressures on corporations, together with their response in terms of their internationalisation strategies and changing organisation structure, has also given rise to an apparent paradox in the geographic pattern and distribution of investment and production. Specifically, corporations appear to be able to operate without any evident restriction to a specific location. The global location environment that corporations now inhabit has become 'slippery' or 'frictionless'.

At the same time, it is clear that these economic forces set the foundation for more pronounced geographical concentrations or 'clustering' of corporations engaged in related functions. At certain locations, corporations are able to benefit from the presence of others and to access localised support facilities, shared service centres, supporting infrastructure, distribution networks, specific customer demand requirements and patterns as well as specialised factor inputs – agglomeration economies.ⁱⁱ

Corporations are increasingly seeking out locations with the best package to support their strategic objectives and operational requirements. The presence of corporations at a certain location is also a signal to others which may be less familiar with the location. This can produce a 'snowball' effect or an 'agglomeration magnet', through which different corporations are more aware of and can gain benefits from being part of a geographic network or cluster of related activities and specialised support services. To date, the concentration of corporate investment and production has been most evident in advanced industrial economies in Europe and North America, or the larger developing countries. Other, less obvious examples can also be found, such as in Bangalore, where there is a growing concentration of computer software and related activity –

Selected indicators of internationalisation

	Annual growth rate (%)				
	1986-90	1991-95	1996	1997	1998
Gross production of foreign affiliates	16.8	7.3	6.7	12.8	17.1
Export of foreign affiliates	13.5	13.1	-5.8 (est)	10.5	14.9

Source: Table 1.2, UNCTAD, *World Investment Report*, 1999, p9

knowledge-intensive activities tend to be more geographically concentrated.

The inflow of FDI to selected locations means that they are able to benefit differentially from a strengthened technological base, enhanced export competitiveness and improvements in both the quantity and quality of local employment opportunities. FDI can also play a key role in enhancing the capacity of a host location to respond to opportunities offered by global integration, investment and production.³³ To obtain these development benefits a location will, however, first need to capture the corporations and the associated investment flows.³⁴

Making locations 'sticky'

The issue of 'where', which at first sight appears to be diminishing in importance, is becoming more, rather than less, critical to the relative success of locations. Some locations are evidently 'sticky'. The question is, what systematic differences make some locations 'stickier' than others? It is a question that location development policy makers and communities are seeking an answer to with increasing fervour. Not least because each location faces the prospect of decline – the competitive locations of today may not necessarily be those of tomorrow.

Sticky locations are those that are able to offer an environment that is attractive to both corporate investors and communities.

'To obtain FDI, it must be an attractive location for foreign investors.'³⁵

Attractive locations are able to provide a combination of:

- consistently superior market performance (generating positive opportunities for incomes, employment, wealth creation and providing for a high quality of life);
- activities (both in terms of their own business activities and those which support them – decision-making and high value-added, fast-growing, internationally-oriented production activities);
- supporting infrastructure (providing excellent 'hard' and 'soft' assets to support activity and superior performance);
- institutional capability and capacity (bringing together and organising disparate elements from public and private sector communities to envision, plan for, manage and implement change).

The global location environment that corporations now inhabit has become 'slippery' or 'frictionless'

Winners and losers

Experience suggests that locations will need to consider carefully the way their assets are organised, managed and deployed. If locations hope to succeed and prosper in a global economy populated by transnational corporations, they will need to plan as carefully as the corporations they are seeking to attract. They will also need to be adaptive and proactive in terms of outlook, planning and outreach.³⁶

The objective is to ensure they are flexible enough to reallocate effort and resources quickly and smoothly in response to pressures exerted by the external environment. This highlights that everyone in a location, potentially, has a role in ensuring the competitiveness of that city – the new agenda for locations. The approach goes beyond compartmentalising locations into discrete and jurisdictional elements and broadens existing unidimensional logic and organisational frameworks – the old agenda for locations.

Successful locations are those that gain control over their competitive position, so that they can choose among possible futures, rather than passively accepting their lot. There is an explicit recognition that things do not just happen in and to locations by accident – they happen because of the way in which locations function and they interact with a changing world. Some locations, such as Dublin, Atlanta, Singapore and Hong Kong,

are already treading this path and are enjoying success disproportionate to their size. Others, such as Mexico City, Bombay, Manila and Jakarta, are indifferent, or lack the capability and capacity to plan and deliver successful outcomes over the long term. Without the implementation of a coherent forward plan, the result will surely be a further slide towards certain long-term relative decline.

³³See Fabrice Hatem, *International Investment: Towards the Year 2001*, Invest in France Mission in collaboration with DATAR, United Nations Conference on Trade and Development (UNCTAD), and Arthur Andersen, United Nations, 1997.

³⁴See John H. Dunning, 'Location and the Multinational Enterprise: A Neglected Factor?', *Journal of International Business Studies*, UMI Company, 1998, sourced from the Dow Jones Interactive Publications Library; and Anne Markusen, 'Sticky Places in Slippery Space: a Typology of Industrial Districts', *Economic Geography*, 1996, Vol.72, No.3.

³⁵Organisation for Economic Cooperation and Development (OECD), *Foreign Direct Investment and Economic Development*, 1998, p.53.

³⁶UNCTAD, *World Investment Report*, 1999, p.186.

³⁷UNCTAD, *World Investment Report*, 1999, p.186.

³⁸See Neil R. Peirce, Curtis W. Johnson & John Stuart Hall, *Citistates: How Urban America Can Prosper in a Competitive World*, Seven Locks Press, 1993; Michael E. Porter, *The Next Agenda for America's Cities: Competing in a Global Economy*, First Annual James W. Rouse Lecture, Fannie Mae Foundation, June 1997; Lim Lan Yuan & Malone-Lee Lai Choo, 'Singapore as a Global City – Strategies and Key Issues', in *Cities and the New Global Economy*, Conference Proceedings Vol. 3, OECD/Australian Government, Melbourne, November 20-23, 1994.

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