

The Business Expansion Decision Making Process for Multinational Enterprises Investing in Canada

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EXECUTIVE SUMMARY

Foreign direct investment (FDI) in Canada generates economic growth through job creation, technology and knowledge transfer, and integrates Canada into the global marketplace. It is recognized that FDI makes a substantial contribution to Canada's prosperity and competitiveness. The Government of Canada, through the Department of Foreign Affairs and International Trade Canada (DFAIT), works to influence the investment location decision of foreign companies by promoting selected priority sectors and enabling technologies where Canada has clear competitive advantages and where promotion activities will make a difference for projects that will contribute to Canada's real production capacity.

This report is written for DFAIT, and is intended to provide insight into the business investment making decision process. DFAIT believes that with better information about who decision makers are within a company and how FDI decisions are made, it can better inform its investment promotion strategy and tools to serve foreign-based companies considering Canada as an investment destination. The purpose of this report is to provide DFAIT with a comprehensive model of how investment decisions were made within multinational enterprises (MNEs) that invested in Canada by answering the following research question:

What are the business investment decision making processes for multinational enterprises investing in Canada?

DFAIT is responsible for the promotion of Canada's diplomatic and consular relations and international trade. One of DFAIT's main objectives is to promote greater economic competitiveness for Canada through enhanced commercial engagement, including increased foreign direct investment. DFAIT's investment headquarters and the central point of contact for the FDI network, the Invest in Canada Bureau works to market Canada, attract new investors, retain and facilitate expansion by existing investors, identify FDI impediments, advocate for policy change, and partner with other levels of government involved in FDI promotion. As part of the Invest in Canada Bureau, the Investor Services Division works to increase FDI in number and value and to increase the number and quality of investment prospects identified and shared with partners.

Literature Review

The literature review explores the body of knowledge on FDI decisions to provide context and support the research activities for this report. Relevant literature discusses global business expansion through FDI including its location determinants, decision maker authority and motivation, and stages of the decision making process. Location determinants fall into several broad categories: market access, financial and fiscal policy, risk, resources (labour, materials, and knowledge), physical infrastructure, and industry presence. The relative importance of FDI location determinants depend on the opportunity, the type of investment, and the investor's strategy. Company size, company structure, existing investments, activities to be completed through the investment, and whether it is a new or sequential investment all affect the importance accorded to individual location determinants. There is division in the literature on the importance of traditional economic variables versus less established drivers such as fiscal and financial incentives on FDI.

Decisions are made by individuals in the context of their organizational environment. A decision maker's culture, personal experience, tolerance for risk, and self-interest affect their preferences and the outcome of the decision. Decision making authority is limited to senior executives at the global, regional, and Canadian headquarters, while final approvals are limited to chief executives at these locations. Decision makers also have limited resources to make their decisions. They rely on stereotypes, nation branding, internal champions with personal experience, and external champions including foreign governments.

Lower level management with personal experience in a location, regional or business unit headquarters may act as champions, distributors, suppliers, and governments may work to build a business case, often in tandem with a Canadian subsidiary to develop a local business initiative. As such, relationships are important to FDI decision making in establishing trust and credibility between the decision maker and those individuals putting forward a business case.

Most authors agree that the FDI decision making process is composed of phases related to identification of a method for expansion, investigation and selection of locations, and the decision to invest. Each stage builds upon and feeds back onto the other and may be completed concurrently. Initially prompted by an issue or opportunity, this process may take several years to proceed to final approval of the proposed business plan. Investment in Canada is selected when, of the limited options considered, it provides the most competitive solution in line with company strategy.

Methodology

The research design for this project consists of key informant interviews used to gather case-specific information on FDI decision making for investors to Canada. Interviews were semi-structured with open-ended questions used to explore respondents' experiences and the FDI decision making process in depth. Respondents were selected based on their involvement in one of three recent investments in Canada. Company respondents most often had experience in or related to business development and had played a role in the specific investments under discussion. Government investment promotion staff were selected based on their role in facilitating these investments. Of the 15 individuals who participated in interviews, seven were from DFAIT, six from private companies, and two from provincial governments.

Findings and Discussion

Interview findings outline distinct stages common to the FDI decision making process, each characterized by a major decision: the decision to explore FDI, the investment location decision, and the decision to invest in Canada. The information available on some stages of the decision making process was limited according to the role of the respondent. If the MNE operated in Canada previous to the investment, local decision makers played a greater role in earlier phases of the decision making process, while decision makers at global headquarters played a greater role in later stages of the process. Although investment decisions and related activities were not always entirely clear, interview respondents described FDI decision making as a continuous investigative process requiring repeated analysis and approval by increasingly senior decision makers to move forward.

The FDI decision making process involves simultaneous decisions made by multiple players at multiple locations, influenced by organizational environment and structure. Respondents experienced traditional top-down requests for investigation of FDI by headquarters and strong support by senior management at Canadian operations, often at the same time. Some views differed between investment promotion staff and investors, as well as by the investor's position within the organization. Company respondents generally identified decision makers as executive level staff, whether located in a subsidiary, regional or global headquarters. However, investment promotion staff were in some cases unsure who had been involved in decision making, in part tied to their limited access to decision makers where there was no existing Canadian presence. Regardless of their position and role, nearly all respondents underscored the importance of champions as decision makers with ties to senior decision makers at MNE headquarters and their ability to raise Canada's visibility within the organization and lead initiatives for Canada.

While there was general agreement between interview findings and the literature, interview respondents were able to provide information in greater depth and specific to the Canadian context. Respondents discussed the criteria used in evaluating Canada as a location for investment and emphasized the level of competition Canada faces when attracting investment. Not only is a competitive business case needed, it

must be strong in comparison with other locations shortlisted based on their ability to meet basic economic requirements for the type of investment project. Location determinants of key importance to all investors and government staff were access to market and cost competitiveness. Available qualified labour and physical location also acted as secondary factors driving the investments in addition to sector and project specific variables. Some company respondents also emphasized the importance of support by government in building a business case for Canada and identifying sources of funding. Additionally, respondents emphasized the importance of incentives in keeping Canada in consideration throughout the site selection processes.

The findings from the literature review and interviews are reflected in a comprehensive investment decision making process model. This model proposes a broad overview of the schematic processes and players to outline how investment decisions were made within multinational enterprises who have invested in Canada.

Conclusion

The report explored the MNE foreign direct investment decision making including its processes, players, and location determinants and provides a model of how investment decisions are made with a focus on the components that are the most relevant to the Canadian context. While Canada's is well positioned as a top performing economy for businesses to innovate, grow and succeed, greater insights into the complex nature of FDI can serve to increase its competitive advantage as a location of choice for investment.

Table of Contents

1.0	INTRODUCTION	1
2.0	CLIENT BACKGROUND –DEPARTMENT OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE CANADA	3
3.0	LITERATURE REVIEW	5
3.1	Global Business Expansion	6
3.1.1	<i>Foreign Direct Investment</i>	6
3.1.2	<i>Mandates for Foreign Business Expansion</i>	7
3.2	FDI Location Determinants	8
3.3	MNE Decision Making	11
3.4	FDI Decision Making Process	14
3.5	Summary	17
4.0	METHODOLOGY	19
4.1	Sample	19
4.2	Interview Questions	20
4.3	Recruitment	20
4.4	Data Collection and Analysis	20
4.5	Limitations of the Research	21
5.0	INTERVIEW FINDINGS	22
5.1	Decision Making Process	22
5.2	Decision Makers and Influencers	23
5.3	Key Drivers	24
5.4	Information Used and Assistance Provided	26
5.5	Summary	27
6.0	DISCUSSION	28
6.1	FDI Decision Making	28
6.2	Investment Decision Making Process Model	31
6.2.1	<i>Components of the Model</i>	32
6.2.2	<i>FDI Decision Making Process</i>	33
7.0	CONCLUSION	35
8.0	REFERENCES	36
9.0	APPENDICES	43
9.1	Appendix A: Foreign Affairs and International Trade Organizational Chart	43
9.2	Appendix B: Key Informant Interview Guides	44

1.0 INTRODUCTION

Trade liberalization, access to markets, and bilateral trade and investment are key to advancing Canada's prosperity and competitiveness by providing access to new technologies and knowledge, and fostering a competitive and innovative business environment. The Government of Canada recognizes the substantial contribution that foreign direct investment (FDI) has made and continues to make to Canada's economic development, directly creating jobs and economic growth, increasing productivity, and improving standards of living. In 2011, total FDI stock in Canada was \$607.5 billion, an increase of 3.8% (\$22.4 billion) over the previous year (Statistics Canada, 2012). The United States is Canada's most important economic partner and major source of FDI, contributing over half of FDI stock in 2011, while Europe accounted for about 30% of FDI in 2011. The share of emerging economies have grown substantially in recent years, although overall they account for a small share (Brazil, 3.1%; China, 1.8%) despite ranking among the top sources of FDI in Canada in 2011 (Statistics Canada, 2012). Canada's competitive advantage is traditionally linked to its resource and resource-based products based on access to abundant and low cost natural resources (State of Trade, 2011, p. 88). As a result, Canada specializes in intermediate goods, with goods accounting for the majority of Canada's international trade (State of Trade, 2011, p. 93). In 2011, FDI in the service industries accounted for approximately 48% of total FDI stock (\$289 billion), followed by manufacturing at 32% (\$193 billion), and primary industries at 20% (\$123 billion). Primary industries dominated by the extractive sectors have risen sharply in the last decade as a result of higher global commodity prices. The manufacturing sector has seen a corresponding decline in importance with a decrease from 38% to 32% over the last 10 years (Statistics Canada, 2012).

FDI flows are at the centre of global supply chains, and economies around the world are engaged in intense competition to attract and expand strategic FDI. While some of the basic determinants of FDI such as geographic location and market characteristics are largely outside of policy control, there is still much that the federal government can do to affect the location decision of foreign investors. The Department of Foreign Affairs and International Trade Canada (DFAIT) is responsible for promoting, attracting and retaining foreign direct investment (FDI) in Canada. DFAIT's investment promotion strategy focuses efforts on investors in selected priority sectors and enabling technologies where Canada has clear competitive advantages and where proactive promotion activities will make a difference. The strategy proactively targets greenfield investment or expansion of an existing branch or subsidiary, both of which raise the stock of productive capital in Canada. While other FDI is welcome, these investments may occur without proactive government intervention and have limited direct short-term contributions to Canada's real production capacity.

This report is written for DFAIT and is intended to provide insight into the business investment decision making process. DFAIT believes that with better information about who decision makers are within a company and how these decisions are made, a better investment promotion case can be developed. As well, DFAIT officers and account executives would be better able to serve foreign firms looking at Canada as an investment destination. Findings would potentially be used to inform the investment promotion strategy and in promotional tools development, as well as by investment officers engaging with potential investment targets.

Specifically, this report aims to determine the development of a comprehensive model of how investment decisions were made within multinational enterprises that invested in Canada. The report will address the following research question:

What are the business investment decision making processes for multinational enterprises investing in Canada?

Subset areas of interest include:

- Who are the decision makers, influencers and supporting staff?
- What are the steps?
- What are the triggers?
- How do they make decisions?
- What are the key drivers/factors considered and relative weights? What information do they use at each step and where do they source this information?
- How much are decisions made in advance of action being taken for each step?

The body of this report is composed of seven sections. The first two sections present foreign direct investment and investment promotion in Canada and outline the purpose of the research. These sections also describe the Department of Foreign Affairs and International Trade's Invest in Canada Bureau and its structure, mandate, and initiatives underway. A review of relevant literature follows, discussing global business expansion through FDI, the FDI decision making process, decision makers, and location determinants. The fourth section presents the research design and methodology followed for semi-structured open-ended interviews. This includes sample design, participant recruitment, data collection and analysis, and potential limitations to the research. The fifth section summarizes interview findings from discussion with company decision makers and investment promotion staff involved in three recent investments. These experiences were organized according to common themes which include the investment decision making process, decision makers, key drivers, and information used and assistance provided. The sixth section discusses interview findings in relation to the supporting literature review and explores the similarities, differences, and their implications. These findings also inform an investment decision flow model proposed to underpin investment promotion strategy in Canada. The conclusion ends the report by highlighting the primary considerations brought forth in the research.

2.0 CLIENT BACKGROUND –DEPARTMENT OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE CANADA

Created in 1909 to manage Canada's relations with other states, the Department of Foreign Affairs and International Trade (DFAIT) is responsible for the promotion of Canada's diplomatic and consular relations and international trade. In addition to headquarters in Ottawa and regional offices in most major Canadian cities, DFAIT operates a network of embassies, high commissions, consulates, and trade offices with more than 9,000 employees in nearly 150 cities worldwide (DFAIT, 2012, p. 12).

One of DFAIT's main objectives is to promote greater economic competitiveness for Canada through enhanced commercial engagement, secure market access, increased foreign direct investment in high-value sectors and targeted support for Canadian business. In FY 2012-13, a priority of DFAIT's international commerce strategy was to enable the global success of trade commissioner clients through collaboration with portfolio partners, sector-specific capacity building and program delivery; and promote investment and innovation and initiatives to support small- and medium-sized enterprises. The main components of DFAIT's foreign direct investment (FDI) promotion strategy (policy advocacy, proactive marketing, prospecting, and aftercare services) closely parallel the business functions of product development, marketing, sales, and after sales services. In this context, DFAIT's role is to coordinate and support effective partnerships with other federal and provincial players to maintain Canada's competitive investment climate, market Canada as the location of choice for international businesses, attract new investors to Canada, and retain and facilitate expansions by existing investors. As DFAIT's end customers include foreign MNEs seeking to invest in Canada, a main responsibility of DFAIT's missions abroad is to call on international companies with the potential to invest in Canada. During these outcalls, DFAIT's global network of investment officers deliver the market intelligence, connections, and key marketing messages foreign investors need to identify and capitalize on opportunities in Canada.

In 1993, the Investment Development Division of Investment Canada at Industry Canada was moved to DFAIT and renamed Invest in Canada. DFAIT's investment headquarters and the central point of contact for the FDI network, the Invest in Canada Bureau works to: market Canada as the location of choice for international businesses, attract new investors to Canada, facilitate expansions by existing investors, retain existing investors, and to identify FDI impediments and advocate for policy changes, and maintain partnerships with other departments and levels of government involved in FDI promotion. As part of the Invest in Canada Bureau, the role of the Investor Services Division is to identify and pursue investment targets, leads, and prospects to promote Canada as a globally competitive location and partner for investment, innovation and value-added production. The Investor Services Division works to increase FDI in number and value, and to increase the number and quality of investment prospects identified and shared with partners. Expected results of the FDI strategy include an increase in number and value of foreign direct investments facilitated by DFAIT in proactive sectors and from key markets. A minimum of 100 DFAIT facilitated investments are targeted for 2012-2013 (DFAIT, 2012b, pp. 15-16).

In recent years, volatile global economic conditions posed potential negative impacts on trade and FDI. However, DFAIT's Global Commerce Strategy and its risk mitigation measures have in part addressed this through use of business planning to set goals, focusing efforts on high-value opportunities, expanding economic relationships through trade negotiations with the European Union and India, and high-level advocacy campaigns in the US on trade and investment issues (DFAIT, 2012, p. 19). For the fiscal year 2011-2012, DFAIT successfully facilitated 152 greenfield and brownfield investments with an estimated total value of \$19.7B and creating 7,720 jobs, an increase of 5% over the previous year (DFAIT, 2012, p. 3, pp. 23-24). This was advanced through activities such as: promoting Canada as an investment location of choice at key events including the World Economic Forum, the World Business Forum, and within the Asia-Pacific Economic Community; delivering speaking engagements in priority sectors and markets by Investment Champions, or

senior-level private sector executives; all within the context of Trade Commissioners conducting 2,249 FDI meetings, and arranging 249 exploratory visits to Canada by prospective investors (DFAIT, 2012, pp. 23-24).

3.0 LITERATURE REVIEW

This literature review explores the body of knowledge on foreign direct investment (FDI) decisions. The review provides an overview of the main theoretical approaches and empirical studies on three major elements of FDI: location determinants, decision makers, and the decision making process. The review also explores FDI decision making in multinational enterprises (MNEs) as relates to home country and configuration, types of FDI, investment by industry and activity, and initial investment versus expansion of operations. The review explores differences between FDI decisions and determinants at the global, regional, national, and local level, with particular focus on the national level and to Canada. In the Canadian context, research focuses on FDI inflows as they relate to specific location determinants including government policies (Globerman and Shapiro, 1999) and resources (Hejazi and Pauly, 2003). The literature review establishes both the context for the study and a base to support primary data collection activities and analysis. The review reflects the research questions and is structured as follows: overview of FDI, mandates for business expansion, FDI location determinants, organizational decision making, individual decision makers, and the FDI decision making process.

The study of FDI is recent, beginning with large scale economic growth in the 1950s. Research has focused on macroeconomic motivations for investment, location determinants of particular host and parent countries, and the impact of FDI. New models supplemented each other to create an integrated view of FDI and trade theory. However, the literature has not adopted a unified framework for FDI decisions. There has been little investigation of FDI decision processes, most of which focused on strategic decision processes, although some research takes the neoclassical economic approach to microeconomic rational choice and behavioural FDI decision making. Past economic and business theoretical investigation of FDI has centered either on the organizational motivations or market specific location determinants for FDI: international business, international trade, the theory of the firm, and the relationship between host and parent country characteristics. Theory examining the organization explores ownership advantages, cost reduction, and economies of scale, while theory on market specific factors concentrates on resource allocation, market access and size, and risk.

Major models considered are related to two approaches to FDI. The first is the traditional economic approach to FDI, which focuses on FDI as a result of market imperfection, the MNEs search for increased profits and market dominance through economies of scale, and location drivers determined by the MNE's configuration and strategy. Hymer (1976) introduced the industrial organization approach to market imperfections. He postulated that market imperfections are structural, arising from structural deviations from perfect competition in the final product market due to exclusive control of proprietary technology and distribution systems, privileged access to inputs, scale economies, and product differentiation. Buckley and Casson propose a theory of internalization as a result of market failure (1976). They suggest that MNEs execute transactions within their organization rather than relying on an outside market. Tied to this, it must be more cost effective to internalize the transfer of its ownership advantages between countries than to do so through markets; as such, the ability to innovate is the basis for internalization of cross-border economic activity. Cave's theory of ownership advantage through product differentiation (1971) predicts that firms will invest in foreign markets in order to exploit firm-specific advantages. This oligopoly through product differentiation prevails where corporations make horizontal investments to produce produced in the home market. Vernon's product life cycle theory (1979) focuses on the different phases of the product life cycle. He proposes that the conditions in which it is sold changes over time and must be managed differently as it moves from a new product, growth product, maturity, and obsolescence. He proposes that production facilities are most often set up abroad for products already at standardized and matured.

Dunning's eclectic theory of FDI (1980) forms a base for much of the current research explaining why, how, and where a firm expands and invests based on his OLI paradigm of ownership, localization, and internalization advantage. Dunning proposed that MNEs are resource seeking, market seeking, or efficiency seeking (1988, p. 50). More recently, Dunning's revisited OLI acknowledged that MNE configuration varies across firms,

regions, countries, industries, and activities, but that FDI depends most on motivation (Dunning, 2001). Others built on Dunning's eclectic theory to suggest further economic models of FDI. Markusen (1984) suggested that horizontal FDI is motivated by avoidance of transportation, trade, or tariff costs through single ownership over multiple production facilities. Additionally, Markusen notes that increased technical efficiency may come at the expense of increased market power. Helpman (1984) also built on Dunning's OLI to describe vertical FDI. He postulated that vertical FDI allows for simultaneous intersectoral trade, intra-industry trade, and intra-firm trade through a company structure which integrates a supply chain for its products.

The behavioural economic approach to FDI focuses on individuals as key to decision-making. Considerations include cultural, social, moral, and organizational contexts and how they affect the decision making process and decision makers. Simon's I-D-C, or intelligence, design, and choice, behavioural model of rational choice (1945, 1976) forms the base of many modern behavioural decision making models. Simon's research coined the term satisficing, a decision making strategy that is applied to organizational decision making and to individuals that attempt to meet an acceptability threshold. In contrast to optimal decision making, decision makers are limited by bounded rationality and select the first available satisfactory option (Simon, 1976, pp. 118-136). Among the most cited strategic decision making models and partially based on Simon's IDC is that by Mintzberg, Raisinghani, and Théorêt (1976), which discusses the structure of relatively unstructured decision processes within the constraints of the rational model, focusing on possible path configurations as well as major steps. The behavioural theory of the firm (Aharoni, 1966) built on this to form much of today's behavioural approach to FDI decision making. Aharoni described the theoretical stages of the process while acknowledging the importance of incomplete information, perceived risk, and previous experience to decision makers in the internationalization process.

The empirical research included in this review is primarily qualitative research based on information gathered through interviews and surveys with MNE CEOs on their experiences with FDI. The review applies both behavioural and economic approaches to the decision process. Theoretical business research on FDI determinants is limited and fragmented, developing from empirical literature and modeling firm-level decisions with focus on home or host country. Research on firm level FDI decisions acknowledges the role of the organizational structure and strategy and individual decision makers. Aggregate data on FDI flows reveals patterns in national or regional hosts and explores changing FDI determinants. Quantitative research consulted is limited to studies conducted with large sample sizes of similar types of data from a small window of time and basic analysis of flow only, as other studies omitted country specific differences and motivations.

3.1 Global Business Expansion

3.1.1 Foreign Direct Investment

FDI is an international investment in which financial capital and control are transferred (Hejazi, 2010, p. 5; Organisation for Economic Co-operation and Development, 2009, pp. 234-335). This exchange of interest creates a relationship between the investor and the investment, providing both with a voice in the management of the opposite company's decision making (OECD, 2009, pp. 234-235). The initial transfer includes all subsidiaries and affiliates that form part of the investor's corporate family. All subsequent transactions between the investor and affiliated enterprises are considered FDI (OECD, 2009, p. 232).

FDI may take several forms including acquisition, equity acquisition, equity investment, expansion, greenfield, joint venture, and partnership (OECD, 2008, pp. 227-242). The preferred means of FDI varies depending on the host country environment, home country culture, and the motive for expansion (Capital Markets Consultative Group, 2003, p. 19; Iqbal, 2004, p. 12). Entry mode is also determined by a company's available capital and tolerance for risk; the greater the degree of ownership, the larger the resource commitment (Woodcock, Beamish, and Makino, 1994, p. 258). Much of the world's FDI takes the form of mergers and acquisitions (M&A), under which one company establishes a controlling interest in another foreign company and assumes all rights, privileges, and liabilities of the merged corporation (Hejazi, 2010, p. 6). The dominant mode of entry

for FDI in developed economies, M&A is largely used as a strategy for first market entry or to strengthen the competitive position of a subsidiary (Capital Markets Consultative Group, 2003, p. 19). MNEs often prefer to establish or invest in wholly owned units as opposed to arm's-length activities. In a survey of global MNEs, the strongest preference for type of FDI was for acquisition of a domestic firm. Greenfield investment, where a firm creates an entirely new subsidiary abroad over which it has full control (Hejazi, 2010, p. 5), was second most preferred, followed by brownfield, or expansion of existing operations (Capital Markets Consultative Group, 2003, p. 19; Iqbal, 2004, p. 12). Additional equity investment and intercompany loans to subsidiaries are made primarily to increase market-share in the host country or to consolidate regional operations (Capital Markets Consultative Group, 2003, p. 19). Joint venture (J-V) is the least often preferred and is motivated by host country regulations, the nature of the host country market, or lack of familiarity with the host country market. Joint ventures may be useful in sourcing local resources and networks, and easing market entry (Capital Markets Consultative Group, 2003, p. 19). As the degree of cultural distance increases, acquisition of local knowledge through experience becomes more difficult and costly for a company. As a result, an MNE is more likely to form a J-V to acquire the knowledge of a partner (Buckley and Casson; 2009, p. 1577; Hennart and Larimo, 1998, p. 534).

3.1.2 Mandates for Foreign Business Expansion

Decision theory varies depending on its assumptions of human nature and goals, with perspectives from economics, psychology, business management, and organizational leadership. In general, the location and control decisions of MNEs are based on two evolving economic theory streams. The eclectic theory of FDI derives from trade theory and economics of industrial organization, whereby location choice is a deliberate decision made with the primary goal of profitability (Dunning, 1975). A second approach is the more loosely structured Uppsala internationalization process model which identifies a sequence leading to international production based on incremental knowledge acquisition through experience where firms serve the domestic market, penetrate foreign markets through exports, establish sales outlets abroad, and only then begin production (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977). The outcome of one decision is the input for the next; managers make iterative decisions restricted by limited information and their own risk aversion, leading to a staged entry (Johanson and Vahlne, 1977, p. 26; Buckley et al, 2007, p. 1070; Sykianakis and Bellas, 2005, p. 966).

According to traditional FDI economic theory, MNEs expand to maximize profits when the firm has grown so large that the domestic market is no longer sufficient (Iqbal, 2004, p. 16). The most significant determinant for a mandate for FDI is firm size; larger organizations have greater financial assets and are better able to recover from setbacks. As a result, larger companies enjoy a greater role in global FDI flow (Iqbal, 2004, p. 12; Tan and Vertinsky, 1996, pp. 656-657). FDI is normally characterized by a company's market-specific prior experience, followed by increased commitment (Johanson and Vahlne, 2009, pp. 1414-1417). Export for international sales is often the first step, allowing a firm to enter a foreign environment without the immediate increase in production capacity required by FDI (Daniels, 1971, p. 95; Iqbal, 2004, p. 11; Rob and Vettas, 2003, p. 629). The greater a company's international operations and direct export for sales, the more likely the company is to invest to preserve market share (Grosse and Trevino, 1999, p. 152; Iqbal, 2004, p. 11), and to lower costs associated with tariffs, production, trade, and patents (Iqbal, 2004, p. 16; Helpman, Melitz, and Yeaple, 2004, p. 300). As demand for a product increases in a particular market, the company may establish local production (Vernon, 1966, p. 197; Wiedersheim-Paul, Olson, and Welch, 1978, pp. 52-54). Entry into and increased involvement with a particular country culminates in increased vertical integration and product diversification (Maitland, Rose, and Nicholas, 2005, p. 436). While these steps form the basis for motivation for international production through incrementally acquired experience, MNEs may bypass some stages as a result of knowledge based on experiential learning applied to other countries and product markets.

The literature agrees that for FDI to occur a firm must possess a competitive advantage in the markets it serves, it must view FDI as the most efficient method for expansion, and the host country for FDI must provide advantages greater than the home country (Dunning, 1998, p. 60; Iqbal, 2004, p. 16). MNEs expand in order to

maximize both advantages and economies of scale, resulting in lower cost and market growth (Agiomirgianakis, Asteriou, and Papathoma, 2003, p. 6; Cheni, Chen, and Ku, 2004, p. 331). Relocation or expansion may be motivated by a desire for proximity of production to the consumer, product diversification, and vertical integration, environmental changes, and the company's growth strategy (Iqbal, 2004, p. 11). MNEs segment on a regional or global basis, creating intra-firm trade, partnering in strategic alliances, and tightening links with suppliers and customers (Eden, 1994, p. 28). These global value chains distribute processes over several physical locations to bring a product from conception to customer (Bloom and Grant, 2011, p. 212, p. 218, p. 230; State of Trade, 2011, p. 86). Affiliate value-adding activities may be split into primary functions and support or overhead functions (Eden, 1994, p. 19); MNEs become vertically integrated when different stages of the value chain are performed with intra-firm transfers between different locations, while horizontal integration occurs when different plants produce similar product with intra-firm trade to fill demand or niche markets. Economies of scale may be achieved through a relationship between subordinate units as well as the overarching global value chain (Bloom and Grant, 2011, pp. 217-218; Helpman, 2006, pp. 590-591). Changes in the environment, company structure and strategy, products, and additional experience may all affect global activities, leading to differences in individual MNE growth (Maitland et al., 2005, p. 447; Wiedersheim-Paul et al., 1978, p. 50).

3.2 FDI Location Determinants

The nature, size, and importance of FDI vary by company, home-country, and industry (Iqbal, 2004, p. 12). Although location is a deliberate choice with the goal of profitability, it also depends on the motivations for FDI and the availability, cost, or attractiveness of alternative locations at the regional, national, and city level (Buckley, Devinney, and Louviere, 2007, p. 1070; Eden, 1994, p. 20; Dunning, 1988, p. 60; Franco, Rentocchini, and Marzetti, 2008, pp. 5-6). Additionally, location determinants are interdependent between existing investments, parent country, and potential host countries (Bartels and de Crombrughe, 2009, p. 7). However, recent literature on location determinants acknowledges that location decisions depend less on the activities to be completed and more on the investor's motivations and previous experience in that location.

An investor's motivations are affected by the characteristics of the MNE, host country, and the proposed investment and are subject to change. Market seeking investments, or horizontal FDI, are motivated by the opportunity to serve either the host market or an adjacent market, using FDI in place of export (Buckley and Casson, 1976). Location determinants for market-seeking FDI which serve the host market include: market size, market growth rate, comparative and absolute advantage, while locations which serve only as export platforms are determined by comparative regulations and labour costs (Franco et al, 2008, p. 5). Although market size, market access, and efficiency traditionally dominate as primary motives for FDI, resources, whether physical or knowledge based, are recognized as of growing importance. Resource seeking investment, or vertical FDI, takes advantage of resources at lower cost than in the home country as an alternative to outsourcing and trade (Helpman, 1984, p. 470). In such cases, location is determined by resource cost, scarcity, and productivity. As a result, resource seeking investments place emphasis on factors including exchange rates and their stability, infrastructure, law enforcement, business environment, and trade protection. In contrast, asset-seeking investments primarily seek favourable exchange rates, infrastructure, and rule of law, with additional emphasis on IP protection and clusters of expertise, i.e., skilled labour and innovation (Franco et al, 2008, p. 27).

A firm's decision to invest in a particular foreign market is based on a number of factors including: ownership advantage, market size, composition, rate of growth, internalization advantages, production efficiencies, urbanization, labour cost and quality, access to raw materials, and policies (Agiomirgianakis et al., 2003, p. 6; Capital Markets Consultative Group, 2003, p. 16; Dunning, 1988, p. 50; Globerman and Chen, 2010, p. 2; Iqbal, 2004, p. 12; UNCTAD, 2009, pp. 9-13). The eclectic paradigm provides a number of elements to explain the processes and drivers of types of foreign value-added activities (Dunning, 2001, p177). Given the number of possible location determinants, it is difficult to isolate the effects of one variable. Instead, country-specific competitive advantages depend on the motivation for the investment (Dunning, 1998, p. 60; Eden, 1994, p. 20; United Nations Conference on Trade Development, 2009, p. 9). While FDI from developing countries remains

driven by traditional economic variables, with integration of world markets, developed countries have shifted to FDI motivated by efficiency and knowledge intensive resources, with emphasis on innovation (Buckley and Casson, 2009, p. 1578; Dunning, 1998, pp. 51-54). Manufacturing investments are driven by access to raw materials, access to market, and infrastructure. Although cost is a major driver, MNEs investing in manufacturing operations increasingly select mature economies for ease of doing business (Daniels, 1971, p. 95; Iqbal, 2004, p. 16). Activities not resource or customer dependent are mobile, gravitating toward the most effective location in a developed economy. Knowledge-based investments with skill-intensive activities including R&D are primarily driven by skilled labour and industry presence (Iqbal, 2004, p. 16; Porter and Rivnik, 2012, p. 83). For these sectors, cost of living and quality of life are an important consideration (Public Policy Forum, 2011, p. 5).

Additionally, complementary economies drive investment; market similarity encourages FDI because of transferability of processes and products and less uncertainty, although preference may decrease with increased experience in other markets (Iqbal, 2004, p. 13). Physical and cultural proximity, including similar language, similar political structure, shared border, and strong trade relationship increase a location's attractiveness and encourage FDI (Davidson, 1980, p. 18; Hejazi and Ma, 2011, p. 165; Iqbal, 2004, pp. 12-13). Many international studies have confirmed the pattern of initial investment where differences between host and parent country are minimal, MNEs later investing in locations with greater differences.

A large body of empirical literature indicates that FDI and trade are complementary in the absence of barriers. Free trade agreements (FTAs) and regional trade integration contribute to demand, market size, and security of access, as well as reduced tariffs (Capital Markets Consultative Group, 2003, p. 16; Eden, 1994, p. 20). A trade or customs agreement can encourage bilateral FDI, although the response varies depending on MNE headquarter location, investments in the region prior to the FTA, and industry (Eden, 1994, p. 21; Globerman and Chen, 2010, p. 12; Hejazi, 2010, p.25). Canada's participation in FTAs has encouraged increased bilateral FDI, particularly from the US (Globerman and Chen, 2010, p. 12; Hejazi, 2010, p.25). FDI motivated by access to market looks to exploit an advantage, to strengthen an existing market, or to develop a new market (Dunning, 1988, p. 50). In a survey of investors, more than two thirds indicated that current and potential market access is the most important location determinant (Capital Markets Consultative Group, 2003, p. 16; Globerman and Chen, 2010, p. 9). The size of the domestic market and potential for growth are also key influences on investment location decisions as market opportunities for foreign investors are greater in larger economies (Capital Markets Consultative Group, 2003, p. 16; Globerman and Chen, 2010, p. 9; Leitão, 2010, p. 85). Macroeconomic attributes are the most widely cited determinants in empirical studies of FDI, including market size of both host and parent country, and market growth. Access to market is particularly important when a company must produce its goods in that market as a result of regulated access or high transport costs (Public Policy Forum, 2011, p. 3). Nearness to consumers is a consideration when product life cycle requires alterations in inputs and product characteristics to meet demand (Daniels, 1971, p. 94; Vernon, 1966, p. 195). To counter costs, MNEs are shifting to lean enterprises and locating in proximity to the consumer, suppliers, and downstream activities (Eden, 1994, pp. 27-38). As a result, some stages of production previously mass produced with low cost labour move to the final market (Eden, 1994, p. 27).

Recent evidence suggests that MNEs weigh the competitive advantage of prospective host countries in terms of government incentives to maximize the value of the organization's investment opportunity (Eden, 1994, p. 34; Globerman and Chen, 2010, p. 11; Hejazi and Pauly, 2003, p. 285; Iqbal, 2004, pp. 19-21, pp. 24-28). Incentives fall into three types: financial incentives such as grants and loans, fiscal incentives such as tax credits and reduced corporate tax rates, and other incentives including subsidized infrastructure or services (UNCTAD, 2004, p.5). The value accorded to incentives can vary by type of incentive, size of incentive relative to the investment and size of firm, motivation for the investment, activities and product type, market orientation, and host country (Rolfe, Ricks, Pointer, and McCarthy, 1993, pp. 336-340; p. 351). In addition, a company's level of experience with a location and level of existing operations affect preferences. Incentives that reduce initial expenses are generally attractive to greenfield investments, while incentives that depend upon profit are

preferred by brownfield investments (Rolfe et al., 1993, p. 338). Some studies indicate that incentives which provide access to funds for research, start-up, and expansion may play an important role in determining the location of FDI activities with high fixed costs and capital intensive business plans (Capital Markets Consultative Group, 2003, p. 17). Subsidies have been seen to increase FDI if not matched by competitor locations (Globerman and Chen, 2010, p. 19). However, if incentives are used as the primary means of investment promotion, business leaders may see locations as interchangeable, later relocating to a more cost competitive location (Porter and Rivnik, 2012, p. 90). According to an MNE CEO, "If they [Governments] feel they have to pay you to move to their location, there's probably a reason. I consider that a danger sign," (Porter and Rivnik, 2012, p. 90).

Fiscal incentives are among the most commonly offered (UNCTAD 1996, Incentives and FDI, Series No. 30, as cited in UNCTAD, 2004, p. 27). According to some, low taxation is growing in importance to attracting FDI as more traditional resources such as market size and agglomeration economics lose influence due to globalization, economic integration, and reduced regulatory barriers (Eden, 1994, p. 34; Globerman and Chen, 2010, p. 11; Hejazi and Pauly, 2003, p. 285; Iqbal, 2004, p. 22). Other factors related to the attractiveness of a corporate tax include the relative tax structures of host and home countries, and income tax or total tax revenue as a ratio of GDP (Aharoni, 1966, pp. 163-167; Globerman and Chen, 2010, p. 11; Safarian, 1985, p. 16). In cases of limited financial risk, the corporate tax rate has been identified as highly visible in location decisions (Porter and Rivnik, 2012, p. 90), although it is of greater consideration in the decision for reinvestment than for an initial investment (Safarian, 1985, p. 16). Lower corporate tax rates can generate the perception of lower costs and a pro-business environment to counteract other less favourable FDI determinants, as well as having the potential to influence the economic environment, and as a result of a country's position in the global market and attractiveness for FDI (Iqbal, 2004, p. 39). While empirical studies demonstrate a significant effect on FDI flow, there is disagreement as to whether low corporate taxes directly attract FDI. Corporate income taxes can distort investment behaviour through reduced net rate of return which induces MNEs to invest less, increases cost of capital which in turn reduces a location's attractiveness, and increases uncertainty (OECD, 2007, pp. 68-72; UNCTAD, 2004, p. 27). Additionally, the effects of taxes may be overshadowed by other financial factors (Iqbal, 2004, p. 24). In the Canadian context, Hejazi suggests that industry-specific corporate tax rates have held little weight in the location decision (2010, p. 24, p. 27).

Investing abroad allows an MNE to spread risk and uncertainty (Iqbal, 2004, p. 16). The soundness of a business environment, including politically stability, corruption, rule of law, and IP protection all contribute to the level of risk. According to traditional research on FDI determinants, macroeconomic imbalances in an investment location discourage FDI. Changing political and economic environment or industry decline may cause MNEs to relocate operations (Iqbal, 2004, pp. 11-12). However, empirical evidence on the effect of political risk is varied. In developing countries, importance is attributed to stable politics and conditions that support physical and personal security (Capital Markets Consultative Group, 2003, p. 17-18; Iqbal, 2004, p. 12). Political risk is less relevant for developed countries hosting FDI. Instead, for Canada and similar countries, corruption, a sound legal system with rule of law, and enforceability of contracts are important to secure large amounts of FDI on a sustained basis (Capital Markets Consultative Group, 2003, pp. 118-119; Habib and Zurawicki, 2002, p. 303; Iqbal, 2004, p. 12). Corruption in the host country slightly discourages FDI, although this may not deter investment by countries experiencing high levels themselves (Cuervo-Cazurra, 2006, p. 808).

Other aspects affecting the business environment can impact the cost competitiveness of a location; macroeconomic factors include a stable exchange rate, low inflation, and sustained economic growth (Capital Markets Consultative Group, 2003, pp. 16-18; Globerman and Chen, 2010, p. 2; Public Policy Forum, 2011, p. 3). The nature of bureaucracy, amount of red tape, and familiarity with the way of doing business are also considerations (Capital Markets Consultative Group, 2003, p.18; Iqbal, 2004, p. 12). The minimum time and number of steps required to obtain necessary approvals allows the maximum window to get product to market, particularly in knowledge-based sectors with short product cycles (Public Policy Forum, 2011, p. 3). However, while policies can have significant impact on FDI, in Canada they do not consistently do so (Globerman and

Shapiro, 1999, p. 526). Investors' perception of host government economic policies is also a significant determinant of FDI (Iqbal, 2004, p. 12). Ownership restrictions may discourage FDI through perceived difficulties, although requirements for export or local purchase of inputs do not consistently deter (Globerman and Chen, 2010, p. 10). In contrast, it is recognized that intellectual property (IP) rights and perception thereof impact trade and FDI. IP protection encourages innovators to invest in R&D and commercialization of technologies. Weak IP protection is a source of long-run costs; companies may lose intellectual property or compensate by taking costly measures to protect it (Porter and Rivnik, 2012, p. 87), resulting in reduced FDI flow, technology transfer, and innovation (Global Innovation Policy Index, 2012, p. 69).

Physical infrastructure can outweigh other costs in some FDI decisions (Capital Markets Consultative Group, 2003, p. 17; Globerman and Chen, 2010, p. 12). Transportation and logistics needs differ by industry but are particularly important for MNEs with long supply chains or high transportation costs. For companies in manufacturing and resource-based sectors which rely on pipelines, rail, roads, and waterways, access to transport is a critical determinant of a location's attractiveness, particularly in large geographic areas such as Canada and the US. Infrastructure constraints may impede a location's use as an export platform (Capital Markets Consultative Group, 2003, p. 17). Physical infrastructure also has an effect on FDI at the sub-national level. When transport costs are a large factor, horizontally integrated MNEs will develop the same product in several different locations and similar companies cluster (Eden, 1994, p. 23; Globerman and Chen, 2010, p. 12; Public Policy Forum, 2011, p. 6).

As geographic concentration of business activity is tied to economies of scale, industry clusters work to reduce time and cost for inputs and services (Cheminfo Services Inc, 2011, p. 13; Public Policy Forum, 2011, p. 3, p5.; Rugman, Li 2007, p. 333). According to the oligopolistic reaction theory of intra-industry rivalry, the presence of MNEs signals to investors from similar home countries the advantages of operating in that location, encouraging FDI at the regional and city level and inviting complementary investment (Globerman and Chen, 2010, p. 12; Knickerbocker, 1973, pp. 7-9). This cluster growth and competition can also increase innovation capacity, which in turn is important to attracting further FDI (Hejazi, 2010, p. 4; Iqbal, 2004, p. 17)

There is a strong relationship between FDI and the quality of the available labour in a region or city (Globerman and Chen, 2010, p. 12). The availability of highly skilled or skilled labour is a leading driver for labour-intensive and export-oriented FDI, although labour costs adjusted for labour productivity may be more significant (Agiomirgianakis, Asteriou, and Papatoma, 2003, p. 7; Capital Markets Consultative Group, 2003, p. 17; Hejazi and Pauly, 2003, p. 285). Retention is also important for efficiency and asset-seeking FDI, particularly for M&A (Public Policy Forum, 2011b, p. 1). Results from recent empirical research on low cost labour are mixed, varying by MNE home country.

Access and proximity to a secure supply of low cost raw materials is a key input for the success of manufacturing and resource-based operations and a prime motivator for FDI (Hejazi and Pauly, 2003, p. 287; Iqbal, 2004, p. 16), especially in countries specializing in intermediate goods like Canada (Cheminfo Services Inc, 2011 p. 13; Public Policy Forum, 2011, p. 4). A large input and cost determinant for certain activities, low cost clean or renewable energy supply may also encourage investment (Capital Markets Consultative Group, 2003, p. 17).

3.3 MNE Decision Making

Institutional, cultural, and market conditions shape the MNE decision making process and the actions of individual decision makers who make decisions on a personal and subjective basis (Aharoni, 1966, p. 174; Aharoni, Tihanyi, and Connelly, 2011, pp. 136-137). Behavioural theories for FDI focus on the organizational context for decisions, building on Weber's organizational theory (1947), Simon's rational decision making in organizations (1945), and Aharoni's behavioural theory of the firm (1966).

The structure, geographic configuration, and content of an MNE's portfolio affect its positioning of assets and ability to maintain a competitive advantage (Bloom and Grant, 2011, p. 228; Dunning, 1998, p. 60). FDI decisions are strategic decisions that support an organization's growth. These decisions are generally made by executives and reflect both the interaction between the decision maker and the organization. How a company manages decision making and the environmental and organizational factors that shape the decision making process used by individual decision makers are key to understanding MNE investment decisions (Aharoni, 1966, pp. 30-33). MNE managerial functions are separated from operations, with a headquarters created as an entity specific to management of the corporate portfolio (Bloom and Grant, 2011, p. 212). The power of headquarters to make decisions depends on the nature of the enterprise, level (corporate or subordinate), geographic range, and area of responsibility (Bloom and Grant, 2011, p. 213), as "a leadership role in one market requires very different patterns of decisions and actions than [sic] the role of (perhaps ambitious) junior player in the other market," (Rugman 2005b, p. 169). MNEs often have multiple headquarters, divided by product or geographic portfolio to allow for regional decision making in proximity to operations (Bloom and Grant, 2011, p. 212; Hejazi, 2010, p. 8). This creates subordinate headquarters in addition to corporate headquarters where executive level management staff are based (Bloom and Grant, 2011, p. 214).

Corporate management influences the type of global business strategy and entry mode. MNEs with multiple business units have greater difficulty monitoring and incentivizing divisional managers when parent and subsidiary companies operate in separate locations, cultures, languages, and legal systems (Shroff, Verdi, and Yu, 2011, p. 4). Agency struggles between the parent and subsidiary increase with physical and cultural distance and may be resolved by customizing ownership structure, organizational design, and performance monitoring (Roth and O'Donnell, 1996, pp. 680-688; Shroff, Verdi, and Yu, 2011, p. 27). For example, some acquisitions by MNEs in manufacturing were allowed to operate more independently than greenfield investments (Harzing, 2002, p. 222), although the level of autonomy among Canadian organizations acquired by a foreign company was similar to those established through other methods (Zieminski, 1999, p.4).

Corporate headquarters have a critical role in aggregating and distributing corporate resources, with decisions influenced by the organizational structure and resources deployed (Caves, 2007, p. 68). Corporate headquarter configurations are related to business activities; the extent of delegated authority depends on the corporate evaluation of the benefits of headquarter control and economies of scale versus managerial presence in proximity to production or markets (Bloom and Grant, 2011, p. 216). Building on the organizational management typology developed by Bartlett and Ghoshal, there are three common MNE configurations: multi-domestic, global, and transnational. The global corporation is centrally orientated with corporate headquarters closely directing subsidiaries (Harzing, 2002, p. 217) and frequently making international expansion decisions (Aharoni et al., 2011, p. 135). Centralized decisions are characterized by consolidated operations with integrated risk management and resource allocation. Both are supervised by top executives and Board of Directors with corporate business strategy deliberations taking a top pyramid approach (Capital Markets Consultative Group, 2003, pp. 20-21). This decision style is favoured by large global companies producing homogenous goods and incurring large capital costs for the standardized approaches and capital-raising functions of corporate headquarters (Bloom and Grant, 2011, p. 216, p. 220). SMEs or family-run organizations may also follow this approach, although social networks do exert influence (Iqbal, 2004, p. 12). The multi-domestic organization allows subordinates the most discretion in implementing corporate mandates. Devolved headquarter structures are favoured where speed and knowledge of the local business environment affect outcomes as involvement by headquarters can diminish efficiency. Responsibility for each business segment is organized laterally, transferring responsibility to subsidiaries to vary a product or function or as a corporate centre of excellence, although subsidiary management must have specialized knowledge of product, market, and cross-unit linkages (Bloom and Grant, 2011, p. 216; Daniels, 1971, p. 94; Porter, 1990, p. 609; Vernon, 1966, p. 195; Zieminski, 1999, p. 2). Transnational corporations combine the two models, having authority for subsidiaries and a global scale national presence to allow the strong corporate presence required by some host country regulatory structures (Bloom and Grant, 2011, p. 215-216). A hybrid decision making process is common to large manufacturing companies and some conglomerates where each business unit is given

significant autonomy for FDI location decisions. Business unit executives manage strategy and investment by developing and putting forward proposals at the local level and are guided by the global headquarters' central approval process and shared treasury (Capital Markets Consultative Group, 2003, p. 20).

Headquarter configurations reflect the relationship between corporate and subordinate headquarters, as well as the relationships between each subordinate headquarters (Bloom and Grant, 2011, p. 214). While corporate headquarters typically have the most discretion in determining corporate supply chains, existence of a headquarters or the title of its senior executives does not necessarily indicate decision making authority and corporate engagement. The distinction between corporate and subordinate headquarters may blur when an MNE establishes a subsidiary with its own C-level executives and board of directors (Bloom and Grant, 2011, p. 214). In some cases, lower level executives from the parent may have more decision making authority than the head of a subsidiary (Bloom and Grant, 2011, p. 216). Subordinate headquarters may have very significant responsibilities determined by the corporate headquarters (Bloom and Grant, 2011, p. 214). Autonomy is influenced by the subsidiary's level of integration into MNE operations; the more integrated the subsidiary, the less autonomy (Edwards, Ahmad and Moss, 2002, p. 190). A change in the subsidiary's performance does not directly influence the level of autonomy through increased profitability, expanded sales, or increased market share; instead, autonomy is greater when the performance is better relative to global performance (Zieminski, 1999, p.4). However, performance in innovation may increase autonomy with greater strategic importance of R&D or if financing for research was arranged other than through headquarters (Zieminski, 1999, p.4). A study of subsidiaries in Canada completing value added activities revealed that the subsidiary has no automatic rights to business activities other than those focused on serving the local market. Instead, a subsidiary may pursue an initiative with the parent company to make the case for new product, market, or processes through opportunities in the subsidiary's market (Birkinshaw, 1995, pp. 15-16).

The decision making process involves interaction between several levels of MNE management with varying logic and strategic, organizational, and political goals (Iqbal, 2004, p. 11). At the individual level, investment decisions are based on the manager's personal experience, knowledge, and tolerance for risk (Aharoni, 1966, p. 30; Johanson and Vahlne, 2009, pp. 1415-1420; Kase, Slocum, and Zhang, 2011, p. 147; Padmanabhan and Cho, 1999, pp. 26-27; Zhao, Luo and Suh, 2004, pp. 537-538). Individuals are not entirely rational and may make decisions inconsistent with MNE strategy or efficiency. Applying behavioural economics, the higher the level of uncertainty, the more decision makers use behavioural rules (Hosseini, 2005, as cited in Pinheiro-Alves, 2008, p. 3). Managers take a calculated approach to FDI, each decision determined by the information available and criteria for minimizing risk (Buckley et al, 2007, p. 1070). Past studies reveal that although FDI decisions are highly idiosyncratic, subject to biases, and include self-interest, managers with greater experience in FDI are more consistent, particularly in the decision to invest (Aharoni, 1966, p. 297; Buckley et al., 2007, p. 1087; Sykianakis and Bellas, 2005, p. 957). Prescribed criteria were more likely to be used in decisions involving large resource commitments or unknown targets, and decision makers in larger units were more likely to observe prescribed practices. Short term reliance on criteria is associated with stability in decisions (Sutcliffe and Mcnamara, 2001, p. 496). A decision maker is often measured according to the results achieved; when normal and acceptable risk is taken, the environment may be blamed for failure. Commitment of funds to higher risk ventures is therefore more likely when the decision maker will not be held accountable for loss (Aharoni, 1966, pp. 280-281).

Investment decisions do not exist in isolation as "the business firm (possibly excepting some mature MNEs) has a clear-cut national base and identity, with its internal planning and decision making carried out in the context of that nation's legal and cultural framework" (Caves, 2007, p. 69). While global business practices converge in common languages and business models that focus on identifying opportunities and threats in the business environment, cultural values serve as a base for decision makers' behaviour (Aharoni et al., 2011, p. 138; Kase, Slocum, and Zhang, 2011, p. 147). Business leaders from the United States, Japan, and China have distinct styles of decision making that reflect cultural values and relative needs for achievement, affiliation, and power (Martinsons, and Davidson, 2007, p. 297). American business leaders' high need for achievement takes a

performance oriented approach to analysis and problem solving. This encourages a structured and formalized decision process, although in J-Vs they may attempt to transform organizational power structures that do not match their own (Martinsons and Davidson, 2007, pp. 297-298). The need for affiliation and power are respectively more important to Japanese and Chinese business leaders. Japanese leaders favour outcomes that nurture relationships (Martinsons and Davidson, 2007, p. 297), limiting the ability to change the social structure of a business network to respond to competitive challenge. In contrast, the ability to maintain power is a strong consideration for Chinese leaders, making top down decisions with an institutional focus more likely (Chen and Li, 2005, p. 626; Martinsons and Davidson, 2007, pp. 297-298).

3.4 FDI Decision Making Process

Traditional neoclassical economic models of decision making outline decisions made according to organizational goals in situations of inexhaustible resources. These fail to account for real world conditions where decision are made with incomplete information and under the influence of risk. Decision making is more complex than utility and profit maximization; in reality, decision makers may select the first satisfactory option. The behavioural approach to decision making explores the process of optimal allocation of limited resources by a decision maker to achieve objectives according to organizational, cultural, and moral limitations.

FDI decision making is composed of a large number of decisions made by different people at different times to allocate scarce resources in order to achieve organizational goals (Aharoni, 1966, p. 174, p. 308; Iqbal, 2004, p. 9). Given limited organizational resources, once committed, alternatives are filtered to narrow choices and end analysis (Aharoni, 1966, p. 308). Pre-existing organizational controls, including expenditure caps and established project types, influence which decisions are considered (Butler, Davies, Pike, and Sharp, 1991, p. 398). Additionally, several external players control aspects in the overall decision making process: stockholders, regulatory bodies, community zoning boards, and legal systems (Keeney, 1982, p. 805). While decisions are informed by the context in which investments are made according to strategy, procedures, and operating policies, they are not always precise indicators of the MNE's optimal interest selected according to organizational and corporate strategy (Aharoni, 1966, p. 21, pp. 31-33; Aharoni et al., 2011, p. 136; Franklin, 2010, p. 49).

MNEs follow a series of steps leading up to the decision for foreign investment (Daniels, 1971, p. 95; Mintzberg, Raisinghani, and Théorêt, 1976, p. 247). The decision for FDI is continuous process of intertwined decisions: attention drawn to a problem or opportunity, information gathering, option development, cost-benefit analysis, and decision (Baum and Wally, 2003, p. 1109). Each stage is defined by transformation of the project or commitment by new members or levels of decision makers (Aharoni, 1966, pp. 300-315). Mintzberg, Raisinghani, and Théorêt consolidate behavioural theories on the decision making process into three phases: the initial idea generation, investigation and development of solutions, and decision phases which include evaluation of available options and authorization of action (1976, pp. 252-260). Larimo also proposes a general model of the FDI decision making phases based on the Uppsala internationalisation process of identification, development, and selection. The identification phase is based on recognition and diagnosis; the development phase is a search for a country or target firm and/or policy design; the selection phase includes screening of any searches, judgement, analysis, bargaining, and authorization of a decision (1987, p. 154). According to both theoretical streams, each stage is defined according to a decision made; if no decision is taken the routine may repeat at any point.

While the decision making process is made up of several steps, these may be completed concurrently (Franco et al, 2008, p. 5). Decisions follow a sequence in that each affects future alternatives (Keeney, 1982, p. 806; Sykianakis and Bellas, 2005, p. 966). Information is continuously received, processed and fed back into subsequent action (Keeney, 1982, p. 805; Sykianakis and Bellas, 2005, p. 966). Investigation may reveal new information that influences a decision or redefines a problem, resulting in continuous re-creation, re-evaluation, and re-formulation of plans (Aharoni, 1966, p. 122; Franco et al, 2008, p. 4; Mintzberg, Raisinghani, and Théorêt, 1976, p. 250). As a result, the decision making process is rarely linear or unrelated to other decisions

(Iqbal, 2004, p. 11); each decision reduces available options, influencing the final outcome (Aharoni, 1966, p. 35; Franco et al, 2008, p. 4; Keeney, 1982, p. 805).

Recognition that an investment abroad is an opportunity to explore is a necessary part of the decision process (Aharoni, 1966, p. 53). When initially considering FDI, investigation is launched to explore general investment related factors including risk and uncertainty, market size, growth prospects, sales, prices, and potential cost of investment. Being risk averse, managers are unlikely to consider investing abroad without an initiating stimulus, whether a crisis or a new opportunity (Aharoni, 1966, pp. 54-55; Iqbal, 2004, p. 11). Triggers for foreign investment decisions may come from within the organization or external, influencing different decision makers at different times (Mintzberg, Raisinghani, and Théorêt, 1976, p. 251). Internal triggers include knowledge capitalization, spreading fixed costs, market creation, and organizational change (Aharoni, 1966, pp. 54-55; Birkinshaw, 1995, pp. 15-16), or championing by a high ranking individual with an international outlook (Aharoni, 1966, p. 58). Strong external triggers include proposals from distributors or from foreign governments, fear of losing a market, indirect return to lost markets, or strong foreign competition or a change in competitor activities (Aharoni, 1966, p. 54, pp. 61-63). MNEs also look to their competitors to provide guidance for their own behaviour and to help determine their core competencies (Aharoni, 1966, pp. 61-63; Kunreuther and Bowman, 1997, p. 411), fearing that their competitors will gain a long-term advantage if they fail to invest (Lamafalussy, 1961, pp. 103-113).

Although higher levels of management are not generally directly involved in the earlier stages of investigation (Aharoni, 1966, p. 147), executives generally review projects and authorise further screening and investigation as parts of the project are developed (Sykianakis and Bellas, 2005, p. 957). Once management recognizes FDI as a legitimate opportunity, a more in depth investigation process is initiated (Iqbal, 2004, p. 9). The further the investigation progresses, the more a company's level of commitment to FDI increases (Aharoni, 1966, p. 122-124; Iqbal, 2004, p. i). A business plan is developed to act as a management control system, dictating information gathering, screening, evaluation, and negotiation (Sykianakis and Bellas, 2005, p. 966). Most resources used in this phase are focused on search for existing solutions or in creating a solution to address the issue or opportunity (Mintzberg et al., 1976, p. 3). Relevant information is presented early on in the decision making process, focusing on macro level elements but also drawing on some on-the-spot investigation (Aharoni, 1966, p. 53; Iqbal, 2004, p. 12; Sykianakis and Bellas, 2005, p. 966). Findings are evaluated against criteria focused on production, sales, and marketing (Iqbal, 2004, p. 12). The task is managed mainly by MNE upper hierarchy (Sykianakis and Bellas, 2005, p. 966).

When a firm selects a method for expansion, the host country may not yet be selected (Franco et al, 2008, p. 5). The second stage is the choice of location for the investment, either as a new investment or as an alternative to existing investments (Buckley et al., 2007, p. 1085). A set of potential investment locations are established for comparison from a profile of attributes (Buckley et al., 2007, pp. 1085-1086; Franco et al, 2008, p. 5). Operational factors including market characteristics, firm-specific advantages, and return on investment serve as a screening mechanism to determine a shortlist of locations for consideration (Buckley et al., 2007, p. 1087; Capital Markets Consultative Group, 2003, p. 20). The suitability of a country, particular jurisdiction or a region within a country is then evaluated for prospective investment (Capital Markets Consultative Group, 2003, p. 20; Iqbal, 2004, p. 21). As potential locations continue to be narrowed with a choice later made from the short list, factors considered in the initial stage are not as relevant in the final stage. Host country specific factors like culture and government incentives, including tax credits and subsidies, are considered as location determinants at this point (Kokko, 2002, p. 6). These aspects play a much greater role in the location decision rather than the decision to consider FDI (Aharoni et al., 2011, p. 139; Buckley et al., 2007, p. 1087; Sykianakis and Bellas, 2005, p. 957).

Champions inside MNEs play a vital role in influencing investment flows (Public Policy Forum, 2011b, p. 1). Relationships are critical in driving investment (Aharoni et al., 2011, pp. 136-137; Birkinshaw, 1995, p. 15; Johanson and Vahlne, 2009, p. 1423; Public Policy Forum, 2011b, p. 1). The relationship between the champion

and the receiver of a proposal may act as impetus for FDI. A proposal from an individual whose judgement is trusted or who is difficult to ignore may convince the decision maker to consider new opportunities (Aharoni, 1966, p.33, 63). Companies also rely on information from external sources. Existing business relationships assist in identifying opportunities and so have considerable impact on the decision for geographic market and mode of entry (Johanson and Vahlne, 2009, p. 1423). Government or investment promotion agencies and their related activities are associated with greater FDI (Aharoni, 1966, p. 275; Capital Markets Consultative Group, 2003, p. 20; Morisset, 2003, p. 18; Public Policy Forum, 2011b, p. 1). Nation branding is also key aspect of FDI; associated stereotypes on quality of life, labour, and business environment may be used as a source of information on a country's potential (Kalamova and Konrad, 2010, p. 401). In some cases, unsolicited proposals from governments, distributors, or clients may stimulate an MNE to expand where they had not previously considered (Wiedersheim-Paul et al., 1978, pp. 53-54). Successful business cases are company and sector specific, providing information that builds on existing strengths (Public Policy Forum, 2011b, p. 1). A strong business case outlines financial drivers including costs, access to capital, and access to market (Public Policy Forum, 2011, pp. 3-5) as ultimately an initiative is approved only if financially and strategically sound (Birkinshaw, 1995, p. 15). Subsidiary initiatives include reconfiguration, local market, competitive bid, and mandate extension (Birkinshaw, 1995, pp. 15-16). Two characteristics are particularly important for the success of an initiative: the type of market opportunity and the level of competition with other locations (Birkinshaw, 1995, p. 31), as firm strategy and risk also play a role (Public Policy Forum, 2011, pp. 3-5).

Although location selection processes are used by some MNEs, this is not universal. Location decisions are complex, idiosyncratic, and may depend on limited data. As a result, decisions may be made on strategic rules, rough estimates, or history of operations (Porter and Rivnik, 2012, p. 85). Policies are developed as MNEs gain international experience, increasingly planning in later ventures (Daniels, 1971, p. 95; Johanson and Vahlne, 1977, p. 24). While few companies conduct retroactive analysis of location choices, each investment feeds information into the next investment decision and decreases risk (Johansson and Vahlne, 1977, p. 28; Porter and Rivnik, 2012, p. 86). FDI decision making may differ between the expansion of an existing investment or establishing a new investment, as by type of investment (Capital Markets Consultative Group, 2003, p. 19). An initial decision can lead to additional investment in the same location, whether the decision for FDI is begun through global headquarters or as a subsidiary initiative (Capital Markets Consultative Group, 2003, p. 19; Maitland et al., 2005, pp. 445-447; Porter and Rivnik, 2012, p. 86; Wiedersheim-Paul et al., 1978, p. 50). In the Canadian context, decisions on awarding mandates and related investment to subsidiaries have been based on: championing, timing, credibility and relationships with parent management, and a compelling argument (Birkinshaw, 1995, pp. 15-16). Canadian subsidiaries have also cited government support as beneficial for competitive bid initiatives (Birkinshaw, 1995, p. iv).

The final stage is the decision to invest (Iqbal, 2004, p. i). Prior to final agreement, the project is modified after negotiations within the MNE and with outsiders, due to changes in organization goals, policies, and the balance of power among participants (Iqbal, 2004, p. 12). The final decision to invest lies with top management (Aharoni, 1966, pp. 121-122; Daniels, 1971, p. 96). However, it is difficult to pinpoint the origin of an idea or final decision as what each decision maker does in each step may be affected by a previous step (Aharoni, 1966, p. 122; Iqbal, 2004, p. 11; Keeney, 1982, p. 808), and "the act of catching the opportunity is the final aim of firm's actions and this *primordial motive* shapes the patterns of the decision and the effects it has on both the host and home countries" (Franco et al, 2008, p. 4). In some cases the decision to invest is made prior to investigation rather than the outcome of the process; the investigation is instead carried out to determine an optimal implementation plan (Aharoni, 1966, p. 123).

It may take several years to proceed from investigation to approval of an investment by the highest company authority (Aharoni, 1966, p. 173). Strategic decision speed is impacted by environmental and organizational factors (Baum and Wally, 2003, p. 1124). The patterns of influence achieved by various participants are an important aspect of decision making. Low overall influence and lack of a single dominant influence tends to increase decision time and lead to negative change in support for the decision (Aharoni, 1966, p. 174; Butler et

al., 1991, p. 410). Smaller MNEs are more centralized in their decision making. In larger MNEs, requests are made to a central group that allocates the additional investment funds. The process takes longer but can produce more reliable results; large MNEs can obtain information related to sales forecasts, capacities, and product mixes from global operations, from which smaller MNEs may not benefit (Iqbal, 2004, p. 11). In the decision for expansion, the process is much speedier where local management may present a business case. Headquarters may have greater confidence in estimates based on past experience and reach decisions using past performance (Aharoni, 1966, pp. 196-197). Lower levels of management may delay the presentation of FDI initiatives until judged to be acceptable to higher management (Butler et al., 1991, p. 398).

Timing can be equally important in determining the outcomes of decisions and the available options (Buckley et al., 2007, p. 1085). MNEs must act quickly or miss a business opportunity and potential competitive advantage (Iqbal, 2004, p. 11). However, timing of investment is both firm-specific and path-dependent (Maitland et al., 2005, p. 448). Some MNEs cluster their initial investments to profit from economies of scale, while others invest after long periods of inactivity to mitigate risk by learning from past experience (Maitland et al., 2005, pp. 445-447).

3.5 Summary

The relative importance of FDI location determinants depend on the opportunity, the type of investment (greenfield, brownfield, M&A, J-V) and the investor's strategy. The strategic motives underlying the business expansion decision, whether resource seeking, market seeking or efficiency seeking, also determine which factors will have an impact on selection among relevant alternatives including methods for expansion (including FDI) and host country locations. Location determinants fall into several broad categories: market access, financial and fiscal policy, risk, resources (labour, materials, and knowledge), physical infrastructure, and industry presence. Given the number of variables, it is difficult to determine which are most important given the number of factors which influence: company size, company structure, existing investments, activities to be completed through the investment, and whether it is a new or sequential investment.

Decision makers operate within the organizational environment that constrains their decisions and the decision making process. Organizational structure reflects MNE operations, motivations, and devolved authority. Decision making authority is generally controlled by senior level management, either at corporate or regional headquarters. In addition, decisions are made according to individual behaviour influenced by culture and self-interest. MNEs are learning organizations that develop policies as they gain international experience learning organizations (Johanson and Vahlne, 1977, p. 24), planning more in later investment and in some cases selecting locations more physically and culturally different from the parent location. Additionally, more experienced decision makers are less risk averse and may make more consistent decisions according to established criteria, particularly for decisions with greater uncertainty. Decision makers have limited time and funds and may select the first available satisfactory solution. Decision makers also have limited information to make their decisions; they rely on stereotypes, including nation branding, internal champions with personal experience, and external champions such as foreign governments. As such, relationships are key to FDI.

FDI is usually triggered by either an opportunity or crisis. This initiating force may be internal to the company, such as a need to capitalize on knowledge, spread fixed costs, expand or create markets; or external, such as a champion, proposal from distributors or from foreign governments, losing market share, strong foreign competition, or a change in competitor activities.

Decision makers and influencers may be internal or external to the MNE. An MNE's senior executives usually make the final investment decision. However, FDI may begin at a lower level within a headquarters through management with personal experience in a location, regional or business unit headquarters, or as a local business initiative through a subsidiary and related distributors, suppliers, and governments. In either case, relationships and trust are critical in driving investment and championing has a large effect on FDI decisions.

The investment decision making process for reinvestment differs little from the decision to invest, although the locations considered and the determinants may vary. The decision making process is composed of three stages: identification of an opportunity or need, investigation, and decision. These stages are related to identification of an opportunity (FDI), investigation (location), and decision (to invest), although each builds upon and feeds back onto one another, and may be complete concurrently.

Once a company has selected FDI as the best method for investment, often a set of investment locations are identified for comparison across criteria that would best serve the opportunity. Alternately, locations may be pre-selected based on opportunity, whether driven by parent or subsidiary proposing a local market initiative. In some cases, the decision to invest is made first to determine an optimal implementation plan. The final stage is the decision to invest, or final approval. An investment decision may take several years to proceed from investigation to approval.

4.0 METHODOLOGY

This research follows an inductive reasoning approach using qualitative data collection and analysis to address the research question. The research question and characteristics associated with foreign direct investment (FDI) decision making framed the choice of a qualitative research design, given its focus on exploring the what, how, or why of a phenomenon through understanding individuals' experiences (Creswell, 2009, pp. 11-18; Given, 2008, pp. 517-522). Qualitative research is appropriate given the primary research question to understand the experiences of participants and to observe the FDI decision making process in depth. Qualitative methods, including interviews, can best address the experiences of investors and those who facilitated the investments under consideration in order to better understand behaviours and processes being explored, giving depth of detail. Interviews with knowledgeable individuals were chosen for this research because of their ability to provide an in-depth understanding of the research topic and context (Creswell, 2013, pp. 100 -101). They also facilitate responsive questioning, allowing the researcher to capture the nuances of individual responses, use follow-up and probe to clarify responses or provide additional information.

Key informant interviews were used to gather case-specific information on FDI decision making for investors to Canada. The methods used to collect information for this project also include review of contextual data including DFAIT internal reports and media coverage of the particular investments with which these individuals were involved. Interview findings were used to filter and supplement the literature review which provides context for the study as well as a base to support primary data collection activities and analysis.

4.1 Sample

Qualitative research's emphasis on inductive theory building, subjective understanding, and detailed data is often met through intense investigations of small, systematically selected samples (Given, 2008, p. 797). Purposive sampling was used to select participants for the research; using quota sampling to select key variables likely to have an impact on participants' view, participants were selected to reflect various combinations of variables with the objective of identifying common patterns that cut across variations (Creswell, 2013, pp. 100-101; Given, 2008, pp. 800-801).

A sample of five recent investments was developed from DFAIT internal directories and databases of FDI in Canada. The investors of these investments comprised a selection of companies headquartered in the US, Asia, and Europe, with operations in a variety of sectors, that currently have operations in Canada. These companies were selected to participate based in part on the strength of their relationship with DFAIT and the resultant likelihood of the organization's willingness to participate. These companies are of interest because they are the most appropriate to share information on their experiences with foreign direct investment in Canada. Individual representatives from each company were identified as potential participants among those responsible for business development, strategy, and governance, given their related experience of global business expansion. Interview subjects were senior executives of companies who have recently invested in Canada, from both local operations and company headquarters. In some cases snowball sampling was employed within each organization following initial contact to facilitate the identification of appropriate individuals and bypass organizational gatekeepers.

A sample of DFAIT staff who have expertise in foreign direct investment was also developed. These individuals were identified internally and include the corresponding investment promotion officers at missions abroad who have a relationship with the particular investor and those responsible for investment promotion at headquarters who also facilitated these investments. Individuals who perform equivalent roles in other government departments or regional economic development agencies who participated in attracting these investments were also included.

A total of 15 individuals were interviewed who had involvement in three of the five investments. Each of those interviewed had involvement in one or more of three investments being discussed: seven were from DFAIT, six from private companies, and two from provincial governments. Of the eleven investment promotion staff who were contacted, nine agreed to be interviewed, one declined to participate, and one did not respond to the invitation. In cases where key government investment promotion staff did not agree to participate, company representatives for the investment under consideration were not contacted. In these cases, the researcher felt that it would not be possible to gather the complete information necessary for in-depth understanding of the investment required by the research. Additionally, it was felt that not including key investment promotion staff who might facilitate introductions to investors could have reduced participation rate as well as a potential negative impact on working relationships. Of the eight company representatives contacted from three companies, six agreed to participate, one refused, and one did not respond to the invitation. Reasons for declining to participate in an interview included: limited time, insufficient experience in the area, concerns regarding sharing commercially sensitive information, and the appropriate individual being no longer employed in the same role.

4.2 Interview Questions

An interview guide was developed and used to pre-determine the nature of the interview questions to help direct the interview and to ensure certain topics and questions were included. Two slightly different versions of the interview guide were created to ensure that the questions were worded appropriately for each group of key informants. In all cases, questions were open ended and phrased in a neutral manner to explore the respondent's experiences. Questions focused on concrete experiences related to FDI rather than abstract views (Creswell, 2009, pp. 129-135).

The interview guide for semi-structured interviews employed a conversational format to ensure that the process remained flexible and that more in-depth knowledge could be obtained (Given, 2008, pp. 583-584). While the semi-structured format helped to ensure comparability of interview responses and establish a comprehensive data set, the guide was designed to be conducted on the basis of a loose structure arranged topically, defining areas to be explored (Given, 2008, pp. 811-813). General questions were included at the beginning of the guide and after each topic change to orient respondents. More sensitive questions were placed towards the end of the interview for increased likelihood of response once rapport had been established. The interview guide developed for this study was comprised of questions organized into five main sections: decision making process, decision makers, key drivers, business cases, and best practices. The goal of these questions was to explore the process by which the FDI decisions were made for the investments with which these individuals were involved. (See Appendix C for Interview Guides).

4.3 Recruitment

Potential key informants were contacted directly by the researcher via email and invited to participate in a 30 minute interview. The email explained the purpose of the research, what would be done with the information received, the level of confidentiality, and the reporting scope. The consent form was included as an attachment. The email also included the pre-determined interview questions to provide a better idea of the research as well as adequate time to consider their responses. This email was followed up by telephone or email to answer any questions and to schedule a time for an interview, should the individual agree to participate. Key informants who agreed to participate on this basis were asked to sign and return the consent form by fax or email. If at the time of the interview the consent form has not been returned, verbal consent was provided. The interview took place only if consent had been obtained.

4.4 Data Collection and Analysis

A total of 13 interviews were held over the phone and two interviews in person where appropriate personnel were present in the National Capital Region, in both cases during business hours at the interviewees' place of employment. During interviews, interviewees were asked the pre-determined questions that followed the

sequence of pre-determined questions outlined in the interview guide (Given, 2008, pp. 811-813). In situations where responses needed to be clarified or elaborated upon, the researcher had flexibility and discretion to deviate from the guide when necessary by using non pre-determined questions to probe. The researcher was careful to probe for information in a manner that avoided leading questions (Given, pp. 682-683). Follow-up questions for clarification and elaboration were also used to verify the researcher's understanding and to expand on participants' initial responses.

During interviews the researcher actively listened to participant responses, making efforts to establish rapport with the informant, showing interest, welcoming digression, and confirming understanding of the responses provided by summarizing responses throughout the interview (Given, 2008, pp. 8-9). Interviews ranged from 20 to 60 minutes in length, most interviews lasting approximately 30 minutes. Interviews were recorded using handwritten notes.

Once interviews were complete, the notes were transcribed. During the analysis phase, the researcher carefully reviewed all of the interview notes to ensure that no data was overlooked or omitted. Efforts were made to enhance the credibility of the research by searching for trends as well as negative examples (Given, 2008, pp. 121-123). The responses were organized and interpreted using content analysis that focused on identifying discernible themes and patterns within cases and across interview data. Information obtained from the respondents was analyzed using common themes including: decision makers, influencers and supporting staff; steps of the decision making process, key drivers and relative weights; and information used and assistance provided. In the analysis phase, the researcher also explored alternative ways of organizing the data to produce different findings, searching for contradictory or negative instances of patterns or themes, and considering alternate possibilities the data could support (Given, 2008, pp. 61-62). Data triangulation was also used to enhance the validity of findings. In this case, two groups of key informants, each with different perspectives and professional backgrounds, were interviewed and their responses compared to analyze the consistency of the data. Responses were also compared within groups (e.g. multiple representatives from one company) and across all respondents for less case-specific findings (Given, 2008, pp. 61-62). It was assumed that a high level of agreement between these responses would enhance the accuracy and relevance of the findings, resulting in increased transferability (Given, 2008, pp. 372-373).

4.5 Limitations of the Research

While sample sizes were small, a diverse sample which captures a range of experiences and the factors that influenced them contribute increased in the applicability of extrapolating findings to similar settings (Given, 2008, p. 372-373). Representation of geographic regions, sectors, and activities was obtained. Investment promotion staff interviewed included those located at posts abroad as well as at DFAIT headquarters in the National Capital Region. The companies interviewed included representation from investors headquartered in each of DFAIT's overarching proactive markets: US, Europe, and Asia. These companies are completing operations in several proactive sectors and activities; those interviewed had involvement in: chemical manufacturing, pharmaceutical research and development, and digital media development.

5.0 INTERVIEW FINDINGS

This section summarizes the findings of the interviews with company representatives completing business development functions and the investment promotion staff who facilitated these companies' investments in Canada. The interviews explored three recent investments by companies in different sectors from different geographic locations and the process followed for their investment. Findings are organized thematically to present the common processes and insights of respondents with a broad range of experience. The interviews focused on how, when, and why the companies invested in Canada. Findings from the interviews are presented in four main sections: decision making process, decision makers and influencers, key drivers, and information used and assistance provided. Direct quotations are not provided and comments are not attributed to respondents to protect privacy and confidentiality.

5.1 Decision Making Process

Respondents reflected on their experiences with the investment under discussion and explained how, when, and why the company made the decision for foreign direct investment (FDI) and to invest in Canada. The steps of the decision making process were not clear in all cases. In some cases, company respondents indicated that they could not speak to what occurred at other levels of the organization, particularly if decisions were made at higher levels in the company decision making structure and they had had limited or no exposure to or participation in other levels of decision making. Investment promotion staff also sometimes experienced gaps in their awareness of the decision making process, having information filtered by their company contact's own limited experience or willingness to share. One investment process remained slightly unclear to all government investment promotion staff involved, with numerous players spread across a wide range of geographic locations and more than one company. In this case, the information available to and reported by investment promotion staff was incomplete and in some cases conflicting.

There was overall correspondence within and across all cases that the FDI followed three major steps: the decision to explore FDI, the investment location decision, and the decision to invest. In all cases, the investment decision making process was a cyclical process with investigations and decisions taking place in multiple locations, sometimes simultaneously, and involving different groups of individuals. Investigation and development of potential solutions includes development of a business plan to guide screening searches, analysis and evaluation of available options, and authorization of action for the next round. All solutions were limited to FDI in these instances.

This investment location decision process included a traditional site selection process conducting analysis of one or more potential sites. At this point, Canada was considered for FDI. In most cases, investors considered specific clusters only rather than Canada at the national level. Competitor locations varied, although usually included US sites. In one case all locations considered were limited to Canada, in another all locations considered were related to expansion of existing company operations worldwide, and in another clusters were considered from across the globe.

This investigative process followed repeated steps whereby company decision makers established criteria against which competing locations were evaluated and potential sites narrowed. In each case, senior management developed a business case for quantitative analysis to evaluate projected costs, informed by existing operations where available to determine the competitiveness of sites shortlisted for the potential project. This leadership team worked to determine what would be most profitable and in accordance with company strategy. When a local initiative was developed by a subsidiary, local senior management determined a plan that would further local operations and work for the company on the whole. Given the limited resources for review of projects, potential investment projects were initially developed and vetted by lower levels of decision makers.

The structure of these investigative processes was both top down decisions from multinational enterprises (MNE) headquarters as well as proposals developed or championed from a reverse-pyramid approach. In some cases, both processes took place concurrently within the same organization. Each level evaluated the business proposition before elevating findings to higher levels of management. In all cases, following a final site selection and authorization by increasingly senior levels of management, a decision was made for investment at MNE headquarters. This investment decision was then finalized by the MNE Board of Directors.

Respondents were asked how much decisions were made in advance of action being taken for each step. Overall time depended on number of steps, feedback and repetition required before a decision was made, experience in Canada, and changes to the organizational structure. Individual steps were irregular in length, generally less than 6 months per step, although these were sometimes greater than a year. In more than one case, Canada was shortlisted a year before the final investment decision. Approval at each stage kept momentum and propelled the decision forward in one case. In others, lack of approvals or delays in gaining approval slowed the investment process. Organizational change played a role in both speeding and slowing decisions. In one case, imminent organization change propelled the process forward to capture a limited window of opportunity. In another case, investment promotion staff indicated that delays were related to an adjustment period following large scale organizational changes such as acquisition and internal restructuring. This created additional repetition through the need to review and potentially temporarily shelve existing FDI development processes prior to or concurrent with the development of company business strategy. At the individual level, as a result of internal organizational change some new MNE decision makers at headquarters lacked familiarity with Canada and had limited or no relationships with subsidiary management. Investment promotion staff indicated that in their experience working to attract investment, culture also played a role in decision speed; decision makers in Asia were often slower and more cautious in comparison with those in the US and Europe.

5.2 Decision Makers and Influencers

The decision for FDI and to invest in Canada consisted of several smaller steps with decisions required to move forward. Decision makers, influencers, and supporting staff differed according to the steps of the decision process. A senior level team assessed and presented the value proposition to more senior management who would make a decision to further investigate. There tended to be multiple players at several geographic locations, most often elevated from local operations or regional headquarters and upwards through the organization to senior decision makers at MNE headquarters.

The level of delegated authority for local initiatives or promotion by existing Canadian operations played a large role. The effect of these decision makers' input on the decision for global expansion was to champion and raise awareness at headquarters. In several cases, the decision making process included a local initiative or championing by Canadian operations in combination with traditional top-down request for investigation of FDI opportunities by MNE headquarters. Two investments were successful in following recommendation for Canada and championing by key decision makers at existing operations, with the proposed site vetted by higher level decision makers, and approved by parent company senior executives. In one case, it was a senior decision maker of a subsidiary who initiated the FDI investigation process. In another instance, Canada was the preferred investment location and automatically was included in the shortlist for the investigative phase. However, some company respondents indicated that Canada might not have been considered if it were not for the support by these decision makers. In addition, some Canadian employees at MNE headquarters acted as champions. Based in Canada or of Canadian origin, some senior decision makers were partial to or had incentive for investment in Canada. As a result, these individuals played an active role throughout the site selection and decision process. In one investment, a chief global decision maker and champion for Canada was engaged early on in the decision making process, although active involvement was left to lower levels.

External players also acted as influencers of the decision. Government, industry associations, and private sector companies worked to provide information to support a case for Canada. In one case, organizations in a potential site being considered were active in lobbying on the potential investor's behalf, signalling strong support and

potential future business relationships. Government was involved in all cases by the time Canada had been shortlisted for consideration. At this stage, investment promotion staff worked with companies to make a case for Canada. The involvement of investment promotion staff was not consistent across all cases, but was limited to higher or lower levels of government at some stages, depending on the physical scope of potential sites considered and jurisdiction over the type of assistance or information needed. In one case, provincial and federal governments were approached only after the relevant Canadian municipality had been involved, as the company was not aware of available support. One company respondent said that support from Canada's investment promotion staff helped to raise Canada's profile with decision makers at MNE headquarters and to indicate that Canada was committed to supporting the business.

Company decision makers at global headquarters played a greater role in later stages of the investment decision making process. One respondent was an exception, playing a dual role throughout the decision making process as a result of a dual role in Canadian operations and a role on a global advisory team. Additionally, respondents from Canadian operations who had previously held positions at MNE headquarters or in other global locations within the company were more involved throughout the length of the decision making process. These individuals reported that they had had greater exposure and influence on the investment decision making process than colleagues in comparable roles within their organization who had not had the same exposure to parent company decision makers. These individuals indicated that their experience provided additional insight into the decision making process to help them better tailor their presentation. Additionally, they felt that the relationships developed with an MNE's global leadership team can help to give a stronger Canadian voice in decision making and assist with championing Canada. Respondents suggested that in some cases, the Canadian voice at the table can be polarized; if the larger US market is targeted for products developed in Canada or Canadian operations are governed by a North American regional office, global decision makers may have limited awareness of Canada.

One company respondent explained that the number of approvals required for projects escalated with increased cost. Senior management at each of the local, regional, and global levels had a dollar threshold for approvals. Increased sign off was required for larger projects with high capital costs, including the company CFO and CEO. Decisions on potential investments at each level were made by executive level staff, whether located in a subsidiary, regional headquarters, or company headquarters. The final decision to invest in Canada was made by senior executives at MNE headquarters. In all cases, the decision was approved by the MNE's Board of Directors.

5.3 Key Drivers

Respondents were asked to consider the key drivers and weights accorded in the decision to invest in Canada at each step of the decision making process. In all cases, respondents reported that the initial drivers varied from those used in the final decision. Initial drivers were related to general requirements for success according to the activity and sector and to the motivations for investment. What motivated the company's need to expand varied significantly by investment, although in all cases an issue or an opportunity triggered consideration for FDI. One investment was the result of planned organizational change. A subsidiary took the opportunity to present a case for increased mandate at a time when global decision makers were also examining the distribution of resources and delegated authority. In another case, an MNE was forced to look outside existing operations in other regions to capitalize on an opportunity that presented itself. In a third investment, the profitability of existing operations resulted in the need for expansion in the same or similar locations to maintain its advantage and market share.

Respondents indicated that the initial drivers focused on Canadian capabilities and industry competitiveness for the proposed operations. Canada would not have been shortlisted for further consideration without the fundamentals for a profitable business case. For investments in pharmaceutical research and digital media development, this was tied to access to talent, and knowledge, and the general business environment. For an investment in chemical manufacturing, this related to access to feedstock. Cost competitiveness and access to

market were a requirement for all three. Drivers changed over time from initial consideration to FDI, though narrowing a shortlist of investment locations, to the final decision. Once shortlisted, what tipped the scales for Canada was in addition to the competitive advantage Canada had over other locations for the original criteria. The importance of the overall business environment as a criterion declined in favour of more site specific factors.

Drivers were also related to the global organization and the competitive advantage of other locations. Company respondents indicated that MNE size and structure played a role, including existing Canadian investments and level of delegated authority, both of which impacted awareness of Canada by decision makers. Parent company location, the advantages of other subsidiary locations in competition with Canada for reinvestment, as well as physical proximity, affected relationships with global operations as well as target markets. Size of company affected what resources were available for smaller and mid-sized companies, including access to capital.

The information available on particular weights and factors considered for some stages of the decision making process was limited according to the role of the respondent. While government investment promotion representatives felt that they were aware of the key drivers for the investments they had facilitated, in some cases they indicated that they had insufficient information to accurately describe weights or variance throughout the decision process. In these instances, these respondents were willing to make estimates based on their previous experiences working in investment attraction with these and other similar companies. For example, while investment promotion staff were aware of the importance accorded to incentives in investment location decision once Canada had been shortlisted, they were uncertain to what extent the investment in Canada was contingent upon fiscal or financial government incentives being granted. In one case, both investment promotion staff and company representatives located in Canada were uncertain if an investment would have taken place without incentives. Although a global company decision maker involved described Canada's advantage as related to industry competitiveness and geographic location, subsidiary decision makers had felt that government funding would be required to make the final shortlist of locations for reinvestment and would be key in the decision to invest. Because all locations considered for the project were limited to those with existing operations by the company, the strengths of Canada's clusters and industry were already known. As these criteria had been met, they were irrelevant to the investment location decision. The level of government support offered by Canada and competitor locations was the unknown, and as a result, of more importance than it would have been otherwise.

Company representatives were in strong agreement as to what constituted key drivers for each investment. Company representatives from Canadian operations were very familiar with Canada's business environment, but had less certainty regarding what ultimately persuaded decision makers in Canada's favour. These respondents explained that limited access to this information could be attributed to their role in the investment decision making process. While they played active roles as decision makers in earlier stages, developing and approving business cases to be put forward and in promoting Canada, they played a more limited role in the final stages of the decision making process. As an influencer or champion for Canada, these individuals were less aware of the competitive advantages of alternate locations being considered. As such, they had difficulty attributing precise weights to drivers, although the majority of these respondents were able to rank drivers in order of importance for each stage of the decision making process. These rankings were broadly the same as those described by company representatives from positions at global headquarters.

Company representatives from positions at global headquarters played a greater role in later portions of the investment process and as a result were able to speak more to these stages. As such, limited information was available on changes throughout the process. One individual was the exception, with access to information throughout the decision making process as a result of having both a physical location in Canada alongside Canadian operations and playing a role on a global team of decision makers. Additionally, respondents from companies who had previously held positions at MNE headquarters or in other global locations within the company offered more in depth information with greater certainty. In most cases, these individuals said that

they had had greater exposure and influence on the investment decision making process than colleagues in comparable roles within their organization who had not had the same exposure to parent company decision makers.

5.4 Information Used and Assistance Provided

Respondents were asked to consider the information used and its source in the decision to invest in Canada at each step of the decision making process. In all cases, investment promotion staff supported to build a business case for Canada and identify sources of funding. A network comprised of Federal, Provincial, and Municipal contacts (local economic development staff in particular when only one Canadian location was being considered, given requirements for location-specific data). In all cases, when a company announced its needs and indicated that it was considering sites in Canada for potential investment, investment promotion staff actively courted the investment by facilitating introductions and processes, as well as providing information as needed.

Decision makers developed a business case to evaluate projected costs of a site. One company decision maker described the individual components and method of analysis used in their site selection process. Cost was evaluated quantitatively, including all costs of construction, day to day operations, and inflation over the longer term. Despite basing calculations on net present value analysis, qualitative variables including aftercare also were considered. As companies worked to evaluate sites to narrow shortlisted locations during the investment location decision process, information on government incentives was factored into cost. As part of this, investment promotion staff reported that they had had difficulty meeting company requests for funds as incentives would be tabled later in the site selection process, once a Canadian site has been selected or listed among the final sites. One respondent in an investment promotion role observed that in his experience, a company representative gathering information on potential financing played various potential sites off each other to obtain the best possible incentives package as soon as possible.

In cases where companies requested support, government investment promotion staff indicated that they did not always have full information on criteria and competitor locations. Investment promotion staff noted that they were able to respond to specific enquiries or requests for information by companies, but that in some cases it was difficult to understand the full picture and as a result to make a tailored case for investment. However, companies who requested support from investment promotion staff were pleased with the level of support and quality of information provided. Investment promotion staff most often provided information on Canada's business environment, available talent, and funding programs relevant to the potential investment. They also provided information in industry clusters, in some cases in tandem with local partners, champions from Industry Associations or potential or existing suppliers. Company representatives felt that the information provided was of assistance in establishing their business cases.

Company respondents were also asked to reflect on investment attraction practices that affected their decision to invest in Canada. Investors indicated that they were pleased with the level of collaboration on developing a case for FDI in Canada and continued interaction with investment promotion staff. One investor noted that in the case of a local initiative for reinvestment, government support helped to send a strong signal to decision makers that Canada was committed to supporting operations and that aftercare such as this was an intangible element taken into account when considering locations for reinvestment. Two company decision makers also noted potential future barriers to investment in Canada related to the business environment. This includes limited intellectual property protection, bureaucracy associated with the tax regime which could outweigh the favour with which the corporate tax rate was viewed.

Respondents were asked to consider their experiences with all investment attraction agencies and what engagement practices were most successful in investment attraction. Government representatives cited engagement practices tied to investment attraction strategy and analysis, including the importance of reporting and learning from past interactions and investments. Investment promotion staff suggested that investment

attraction strategies should focus on making a business case for the opportunities Canada offers. Two respondents noted that Canada's branding as being committed to supporting FDI by engaging with potential investors and helping business to grow, is in line with this strategy. At the operational level, several federal investment promotion staff identified the need for a united front with a client focus and one point of contact for the company. The rationale for this varied by individual respondent; some indicated that this leads to better client service through streamlining, others said that it increases professionalism and limits internal competition. One respondent suggested that having fewer points of contact for the company assists in building a personal relationship and associated trust. All investment promotion staff agreed that building a personal relationship between investment promotion staff and potential investors is a successful engagement practice.

5.5 Summary

This chapter reported the findings from 15 interviews with company representatives and investment promotion staff who facilitated their investment. Findings were organized thematically to provide insight into common processes and insights of respondents on how, when, and why the companies invested in Canada. Respondents discussed their experiences on the investment decision making process, who were the decision makers and influencers of the investment decision, what were the criteria for these decisions, what information was used in these decisions, and which investment attraction practices were most engaging.

Respondents described their experiences with the investment under discussion and explained how, when, and why the MNE made the decision to explore FDI, the investment location decision, and the decision to invest in Canada. Investment decisions and processes were not always clear. Respondents described the decision for FDI and to invest in Canada as consisting of several smaller steps with decisions required to move forward. This investigative process included repeated actions of analysis and approval of the business proposition required at each level before being elevated to higher levels of management. Moving forward, the process repeated, with decision makers establishing new criteria to evaluate and narrow investment locations.

Respondents described decisions made throughout the process by executive level staff, whether located in a subsidiary, regional headquarters, or company headquarters. Respondents described traditional top-down request for investigation of FDI by MNE headquarters and support by senior management at Canadian operations, often both at the same time. If the company had existing operations in Canada, local decision makers played a role in earlier phases of the decision making process, such as those who participated in a local initiative. Company decision makers at global headquarters played a greater role in later stages of the investment decision making process. The final decision to invest in Canada was made by chief executives at MNE headquarters and approved by the Board of Directors.

The information available on particular weights and factors considered for some stages of the decision making process was limited according to the role of the respondents. MNE size and structure also influenced preferences. Motivations and triggers for FDI were different in each case, and as result, drivers for each investment also differed. However, respondents broadly described the same location determinants. Initial drivers focused on Canadian strengths in the related industry, as well as overall cost competitiveness and access to the target market. Drivers changed throughout the investment decision process. Once locations capable of supporting the investment were shortlisted, site specific factors were accorded more weight. Government funding was a particular topic of discussion, although respondents were uncertain of its importance in the final decision.

Government, industry associations, and private sector companies supported investment attraction and influenced investment decisions by providing information used in decisions and, occasionally, lobbying. The level of involvement of investment promotion staff was not consistent across all cases, although all in all cases, investment promotion staff supported building a business case for Canada and identifying sources of funding. Company representatives felt that the information provided was of assistance in establishing their business cases.

6.0 DISCUSSION

The purpose of this report is to determine the decision making processes for MNEs (multinational enterprises) investing in Canada. The previous sections have identified the processes, players, and factors which affect the business expansion decision for MNEs as outlined in the literature and discussed in interviews with investors and investment promotion staff. This section presents a discussion of the findings from key informant interviews in relation to the literature and considers how FDI (foreign direct investment) decisions are made for investment in Canada by identifying: decision makers and influencers, how they make decisions; steps and triggers, key factors considered for investment in Canada and relative weights, information used and its source; and the approximate timing of actions. Findings from the literature review and interviews are also applied in a business process map which illustrates the FDI decision making process for MNEs investing in Canada. This provides a comprehensive model of how investment decisions are made with a focus on the components that are the most relevant to the Canadian context, including the FDI decision making process and its players.

6.1 FDI Decision Making

The FDI decision making process is influenced by the MNE context in which decision makers are situated, the type of decision, and the investment project. The literature and interview findings confirm that there are distinct stages common to FDI decision making process. The FDI decision process for MNEs investing in Canada is composed of three major decisions: the decision to explore FDI, the investment location decision, and the decision to invest in Canada. The literature describes each major decision as consisting of several smaller actions repeated until authorized to move forward: identification of issues, opportunities, plans, and solutions; analysis and evaluation of options; and selection (Aharoni, 1966, pp. 300-315; Daniels, 1971, p. 95; Keeney, 1982, p. 805; Sykianakis and Bellas, 2005, p. 966; Mintzberg, Raisinghani, and Théorêt, 1976, p. 247). Interview findings, while broadly concurring, painted a slightly less defined decision making process. Respondents described sequential development of investment projects as varying case by case and across phases of the decision making process; steps may overlap, be omitted, or may not be clearly distinguished from one another. In some cases, the decision process was convoluted and unclear, with some decision phases skipped, repeated, or completed in other patterns than those generally prescribed. Empirical work on speed of the decision process illustrated that continued decisions at each stage maintain momentum and propel the decision forward, while delays in approval slow the investment process though repetition of steps, pauses, or review by additional decision makers prior to authorization for additional action. Consistent with research on decision speed, interviews also suggested that speed of the decision process is highly variable and is tied to MNE structure, culture, previous investments, trigger, and type of investment (Iqbal, 2004, p. 11; Maitland et al., 2005, p. 448).

An MNE's organizational controls and previous learning are reflected in the FDI decision making process and level of delegated authority. This suggests that the decision making process is somewhat flexible within organizational structural constraints, allowing it to adapt to local knowledge and increased experience. Interviews revealed that decision making structures, including protocol and who are decision makers, are fairly rigid and hierarchical once selected. Interview findings further indicate that in practice flexibility more limited to the content of the initial business concept rather than applied throughout the decision making process. In most cases, the organization tended to follow the criteria and steps outlined either throughout the process until a successful decision to invest in Canada is made or until the investment decision making process was unsuccessfully, if temporarily, terminated. However, while in general there is agreement among respondents on the rigidity of decision processes, perspectives differed on the flow of the FDI decision making process as it relates to how MNEs managed uncertainty and changing objectives.

Both a review of the literature and analysis of interviews suggest that the FDI decision making process involves simultaneous decisions made by multiple players at multiple physical locations, influenced by MNE organizational environment and structure. While the literature indicates that is difficult if not impossible to

locate the origins of the investment decision making process and that a one-size-fits all approach to decision makers is not recommended, interview findings suggest that as MNE structure is related to the level of delegated authority, authorization requirements may provide clear points of decision. Decisions on potential investments at each level are made by executive level staff, whether located in a subsidiary, regional headquarters, or company headquarters. Each level evaluates the business proposition before elevating findings to higher levels of management and escalating upwards through the organization for final approvals and finalization by MNE chief executives and the MNE's Board of Directors. The structure of these decision processes is often a traditional top-down request for investigation of opportunities by MNE headquarters, although potential investment projects are initially developed and vetted by lower levels within a company headquarters. Decision making can also take an entirely reverse-pyramid approach, with project proposals initiated and supported by lower levels within MNE, Canadian, or regional headquarters.

Traditional theory of decision making ignores the human element that determines organizational outcomes, although more recent qualitative research does indicate that relationships, culture, and past experience all affect FDI decisions. Beyond confirming that a decision maker's behaviour is influenced by the organizational processes, interviews also confirm that decisions to invest in Canada are a function of individual choice constrained by the MNE culture and structure. Interview findings placed a greater emphasis on the role of the individual decision maker, suggesting that individual behaviour acts almost as an FDI location determinant. Interview results suggest that collective agreement on a selected option and authorization for further action within an MNE did not always occur; in some cases this may have been implied and action furthered by a single or few individuals. Additionally, while decisions are shaped by the decision making process, an individual's characteristics including personal experiences, bias, and relationships within the organization, affect the decision made as well as the level of support provided. This support could take the form of advocacy by senior decision makers based in, having experience in, or of Canadian origin. For some FDIs, Canada might not have been considered for investment by MNE headquarters if it were not for promotion by key decision makers. Given that the alternative to investment in Canada is often the more visible US, where regional offices and decision making for North America are also often located, global decision makers may have limited awareness of the Canadian advantage. This suggests that the role of champions in influencing investment decisions in favour of Canada cannot be underestimated.

External networks can also play a key role in FDI decisions. Networks are important in all investments discussed, although there is variance across companies and the stage of involvement. It is clear across the literature and interview findings that host government support in particular can play a major role in influencing the investment location decision through both various indirect factors such as through fostering a competitive business environment and direct investment promotion activities such as business case development, where government supports information gathering through nation branding and providing information on factors for economic success (Birkinshaw, 1995, p. iv; Kalamova and Konrad, 2010, p. 401; Wiedersheim-Paul et al., 1978, pp. 53-54). With assistance from external players and informed by existing operations where available, decision makers develop a business case to evaluate each location under consideration. While interview respondents were in agreement with literature indicating limited time and resources at the disposal of those developing the business case, some respondents also noted the difficulty associated with obtaining relevant information. Company representatives felt that the information provided was of assistance in establishing their business cases; some indicated that it was information they would have otherwise been unable to obtain and others that the information was such that they might not have otherwise considered. Interview findings also highlighted an avenue for consideration not much discussed in the literature, that of intangible variables. While business cases for investment projects are most often analyzed quantitatively to determine the competitiveness of sites shortlisted, some interviews suggested that qualitative variables could play a significant role. Investor aftercare and industry support by the host government are also weighed in the investment location decision and may act as a competitive advantage over locations that are comparable when evaluated on basic economic criteria. Interview findings emphasized the value accorded to government support by MNE headquarters, raising Canada's profile by signalling commitment to the MNE's business, industry, and FDI.

Both the literature and the interview findings indicate that MNEs consider business expansion as a solution to an issue or to capitalize on an opportunity internal or external to the MNE (Aharoni, 1966, pp. 54-55). Strategic motives underlie an MNE's business expansion decision and determine the methods considered and later selected for expansion (Dunning, 1988, p. 60). Following identification of the problem or opportunity and investigation and development of potential solutions including FDI, the decision for FDI is taken and further investigation authorized. Alternately, FDI may be pre-selected based on the requirements of the opportunity (Franco et al, 2008, p. 5). Interviews indicated that decision makers began the FDI decision making process with FDI already in mind as the intended investment type. In such cases, the decision for FDI may begin at a lower level within a company headquarters, whether Canadian, North American, or global headquarters. This is initiated by senior management with personal experience or a stake in a location, regional or business unit headquarters, or as a local business initiative through Canadian operations and related distributors, suppliers, and host governments. This could be explained through preferences influenced by information gathering in an earlier phase or previous decision, consistent with the theory of MNEs as learning organizations (Johanson and Vahlne, 1977, p. 24; Maitland et al., 2005, pp. 445-447).

There was agreement between the literature and interview respondents that once a company has selected FDI as the best method for investment, lower levels of decision makers develop a business plan to guide and screen the location selection process in accordance with MNE strategy (Sykianakis and Bellas, 2005, p. 966). In addition to providing additional insight and detail into how FDI decisions are made, interview findings link the decision outcomes to the FDI decision making process. This includes decision makers' use of pre-determined criteria developed during the FDI decision making process. It is assumed that the information described for each decision reflected the players involved and criteria actually developed and used in making selections, although analysis suggests that the information reported was consistent. However, interviews did not provide findings on the extent to which decision makers had feedback on their past decisions or, in cases where there were existing Canadian operations, to what extent initial Canadian investment decisions had been retroactively assessed. While the case for investment would probably not have been successful if Canadian subsidiaries were not profitable, it is unlikely that the alternatives not selected and their competitiveness with Canada was reevaluated post-investment.

There was concurrence between the literature and interview findings that the criteria used change throughout the FDI decision making process, from initial consideration, through narrowing a shortlist of investment locations, to the final decision. Key initial drivers and weights accorded in the decision making process are primarily related to Canadian capabilities according to the activity and sector, and to the MNE's motivations for investment (Buckley et al., 2007, p. 1087; Capital Markets Consultative Group, 2003, p. 20). The relative importance of FDI location determinants is tied to the opportunity, the type of investment, MNE strategy, and organizational characteristics such as size, structure, and spread, host locations and attractiveness of alternatives (Dunning, 1988, p. 60). Interview participants were in agreement with this view, but indicated that while Canada initially is considered based on the fundamentals for a profitable business case, more specifically these factors were cost competitiveness and access to market in all cases, among other more project specific variables. Once a shortlist of locations capable of supporting the project is established, basic criteria related to the business environment decrease in importance in favour of site specific factors that provide a competitive advantage over locations in other jurisdictions. As shown by the literature, interview participants indicated that as companies worked to evaluate and narrow shortlisted sites at this stage of the investment location decision process, information on government incentives is considered and factored into project cost (Kokko, 2002, p. 6). While there was no consensus on the level of influence of fiscal and financial incentives on FDI flows, their ability to increase the competitive advantage of prospective locations at later stages of the location decision and act as a FDI location determinant is outlined in the literature and confirmed by interview findings (Eden, 1994, p. 34; Globerman and Chen, 2010, p. 11; Hejazi and Pauly, 2003, p. 285; Iqbal, 2004, pp. 19-21, pp. 24-28). The research emphasized that incentives are an important consideration in later portions of the investment location decision process and were a motivating factor for Canada's consideration among the final locations for

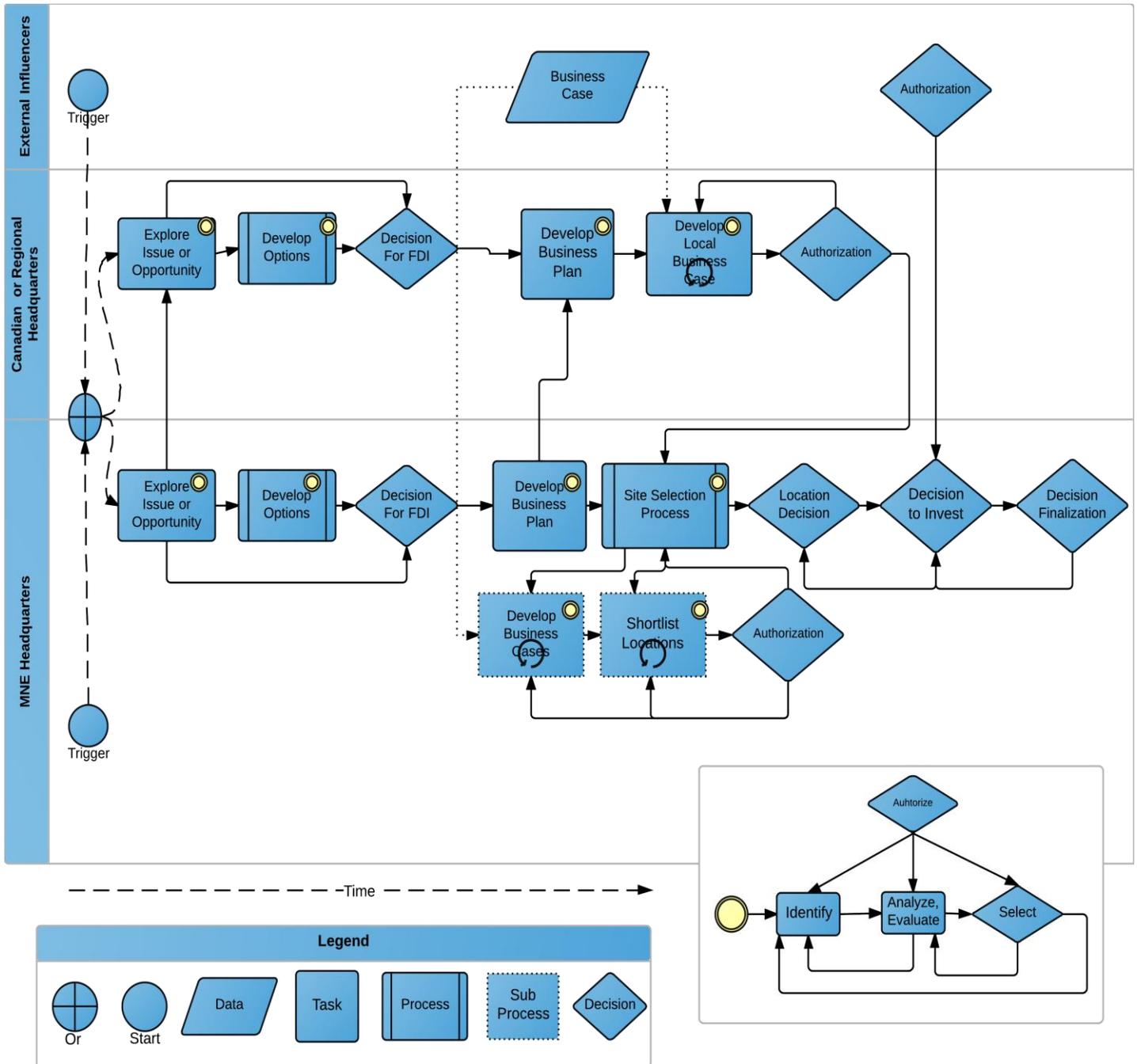
investment. Additionally, some respondents indicated that government funding was required for Canada to be kept in consideration for the final shortlist of investment locations and were uncertain if the decision to invest in Canada would have been favorable without government financial support.

High agreement across cases and interview respondents from various roles provides some confirmation for traditional approaches to studies of FDI decision making and FDI location determinants. Most literature analyzed a specific decision within a single organization through one senior individual, usually a CEO, limiting insight into decision processes. Analysis of interview findings suggests that the information reported was generally consistent with theory, although the research revealed significantly greater depth of detail on decision making processes, decision makers and influencers, information consulted, key drivers at each stage, and their relevance to the Canadian context. For investments in Canada as well as other countries, the decision process varies by MNE strategy and experience, organizational structure including level of delegated authority, trigger, project type and size, and industry. However, the specific factors previously identified combine to create a Canadian advantage that, along with additional insights into the MNE decision making process, can be leveraged to further promote Canada as an international investment location of choice.

6.2 Investment Decision Making Process Model

This section presents a comprehensive descriptive process model of FDI decision making. The proposed investment decision making process model is based on the literature and strengthened by interview findings which confirm the broad processes, procedures and players, and provide additional insights into the details of the process. This model proposes a high level representation of the FDI decision making process for MNEs investing in Canada. As the FDI decision making process is complex and is not entirely predictable, this is a simplified process in its most generic form to allow the broad steps and results of each process to be clearly understood. However, this model provides a schematic process only as timelines may vary according to MNE strategy, structure, and previous investment experience depending on whether it is an initial investment or reinvestment in Canada, the project size, sector, and activities to be completed. The conceptualized process model of the business expansion decision making process for MNEs investing in Canada is illustrated below.

Investment Decision Making Process Model



6.2.1 Components of the Model

The model is divided into three horizontal lanes which identify decision makers and influencers and the location where action is taken. The left side of the model identifies these as external influencers, Canadian or regional headquarters, and MNE headquarters. Actions are situated in the lane appropriate to the location and individuals involved at MNE headquarters, Canadian or regional headquarters. The external environment may also influence either physical location, such as triggering the decision making process through change in the local market and championing by investment promotion staff. Decision makers may simultaneously operate in

several layers and stages. Where multiple locations and decision makers or influencers are possible, action appears in both lanes.

Decisions are identified by the diamond icon. The FDI decision process for MNEs investing in Canada is characterized by major decisions. The first on the far left of the model is the decision to explore FDI, the next to the right is the investment location decision, and at the far right of the model is the decision to invest in Canada and finalization of this decision. These decisions indicate option selection and authorization of further action. Authorization is also indicated by the diamond icon. These decisions indicate approval for progression to the next phase of action or to a higher level of decision making authority.

Tasks are identified by a square icon and defined processes are shown as a rectangular bookended icon. Tasks that form part of the sub-processes are identified by a rectangle icon with a dotted border. The loop symbol in the body of these icons indicates tasks or processes which frequently repeat. Each task or process consists of a series of several smaller actions repeated until authorized (indicated by an authorization diamond) to move forward: identification of issues, opportunities, plans, and solutions; analysis and evaluation of each; and selection. The presence of this cycle of actions is denoted by a small yellow circle in the upper right corner of a task or process icon. The process within the yellow circle is detailed in a separate box in the bottom right corner of the model.

Relationships are indicated by various forms of connecting arrows, with the direction of the arrow indicating the direction of flow. A solid line is most common and indicates the general flow of the investment decision making process from one task, process, or decision to the next. Solid lined arrows may lead backwards against the flow of action to illustrate feedback loops for behaviour that frequently repeats. A dotted line indicates that a player affects the action without having direct involvement in the decision process. These players are usually external to the MNE, such as host government or a supplier. Dashed lines indicate an effect without direct action. Examples include the trigger of the FDI decision making process on the left hand side of the model, and the flow of time from left to right across the model as indicated by the dotted line on the X axis.

6.2.2 FDI Decision Making Process

Moving from left to right, changes within the organization, external issues or opportunities act as a trigger for the MNE to consider expansion. This prompts the first phase of action in the investment decision making process where the MNE considers business expansion. The first task within this phase is to explore the issue or opportunity, either through MNE headquarters or local or regional headquarters. The MNE identifies, analyzes, and evaluates the problem or opportunity and authorizes further action. The second task is to develop options. Here, the same level of the MNE develops options for business expansion as a solution to the trigger. This includes identifying, analyzing, and evaluating potential options related to the trigger and MNE strategy. Each of these stages may repeat and/or may be fed back into the previous stage if further action is not authorized. If successful, the action ends in a decision for FDI as the preferred method for business expansion by chief executives within headquarters. In cases where FDI has been pre-selected, the decision for FDI is likely to be taken at a lower level company headquarters through a champion or as a business initiative through local operations.

The decision for FDI prompts the MNE to begin a phase of action focused on planning the investment. The first task within this phase is to develop a business plan to operationalize the project. Lower level decision makers at MNE headquarters and/or local operations identify, analyze, and evaluate potential options to develop a plan of action and criteria that will assist them in later selecting a location where FDI is most competitive and best responds to the trigger and company strategy. The second activity is the site selection process. The site selection process is composed of frequently repeated and interlinked sub processes. The first of these sub processes is to develop a business case where the MNE develops business cases for one or more potential sites including Canada. Lower level decision makers at MNE headquarters identify locations to explore as potential sites for

the project. In cases where locations have been pre-selected, this initial information gathering may not occur. Next, decision makers identify, analyze, and evaluate information to develop an in depth business case for each location. External players such as suppliers and investment promotion staff may assist in building the business case. Business case development is most often managed by lower level decision makers at MNE global headquarters with input provided by local operations. In cases where Canadian operations develop the business case for Canada as a local business initiative, the next step is an authorization decision. Each level of chief executives analyze, evaluate, and grant authority to escalate the business case to a higher level of management, from Canadian headquarters to North American headquarters, and on to MNE headquarters. The second sub processes is to shortlist locations. Lower level management at MNE headquarters review each business case against the criteria established in the business plan and select the most competitive in line with company strategy. This stage may repeat and/or may be fed back into the previous stage if further action is not authorized. If successful, mid-level executives at headquarters authorize further progression. The action ends in a location decision by senior executives at MNE headquarters who review findings and select the location to invest.

The final phase of the FDI decision making process is composed the decision to invest and finalization of the decision to invest. Following the location decision, chief executives at MNE headquarters review recommendations by lower level decision makers to determine whether to allocate resources to the project. This includes identifying, analyzing, and evaluating potential options related to the trigger and MNE strategy, and any other competition for use of MNE resources. If successful, MNE chief executives make the final decision to invest and the action ends in the finalization of this decision by the Board of Directors. Consultation, negotiation, and approval by external influencers, such as the host government and company shareholders may also take place in this stage.

7.0 CONCLUSION

This report was completed for the Department of Foreign Affairs and International Trade's Investor Services, a component of the Invest in Canada Bureau, to determine the business investment decision making processes for multinational enterprises investing in Canada. In particular, the report explored the MNE foreign direct investment (FDI) decision making including its processes, players, and location determinants. A review of academic and government literature from Canada and other jurisdictions was completed and interviews were conducted with two groups of individuals. Individuals responsible for business development, strategy, and governance at global headquarters and Canadian operations from companies that recently invested in Canada were interviewed. Federal and provincial government investment promotion staff who facilitated those investments were also interviewed.

The research and findings in this report outline the FDI decision making process for MNEs investing in Canada. The report proposes an investment decision flow model which maps the FDI decision making process for multinational enterprises investing in Canada. This provides a comprehensive model of investment decisions with a focus on the components that are the most relevant to the Canadian context including the FDI decision making process, its decision makers and influencers, triggers, steps, timelines, key drivers and weights, and information considered.

FDI is key to Canada's economic development and standard of living through job creation, economic growth, and productivity. Canada remains one of the most welcoming and profitable places in the world for international business and foreign direct investment. While Canada's is well positioned as a top performing economy for businesses to innovate, grow and succeed, greater insights into the complex nature of FDI can serve to increase its competitive advantage as a location of choice for investment.

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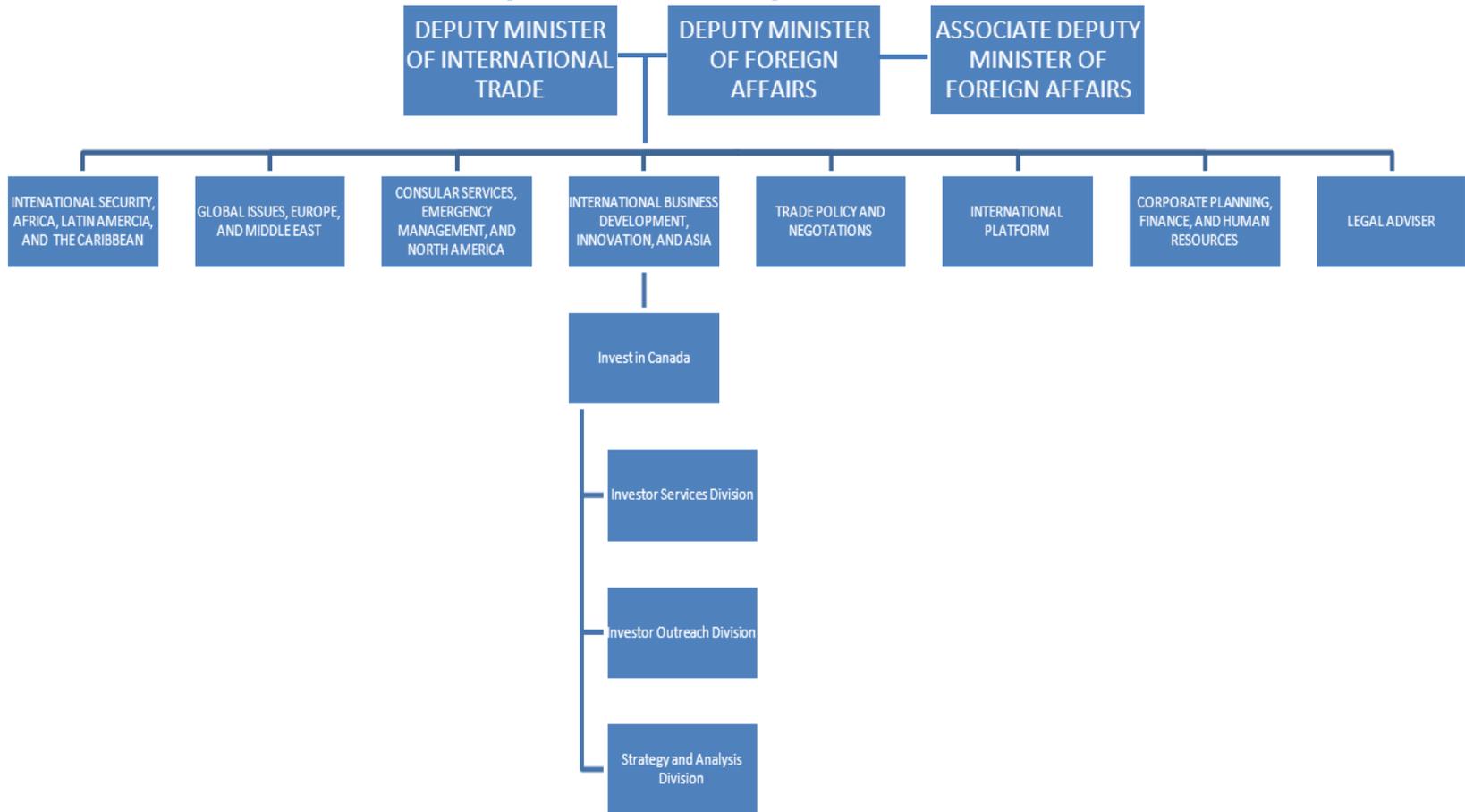
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9.0 APPENDICES

9.1 Appendix A: Foreign Affairs and International Trade Organizational Chart



9.2 Appendix B: Key Informant Interview Guides

The Business Expansion Decision Making Process for MNEs investing in Canada

Key Informant Interviews – Corporate

Name: _____ Interview Date: _____
Organization: _____ Time: _____
Title: _____ Tel: _____
Consent Form Signed: Y / N Email: _____
Investment Details:

INTRODUCTION

First, I'd like to thank you for taking the time to speak with me about this project. Your experiences and perspective into the decision making process for MNEs investing in Canada are a valuable addition to this research.

The purpose of this interview is to explore the FDI decision making process for the research being completed on behalf of DFAIT's Investor Services (BIS). Through key informant interviews with DFAIT investment promotion staff and with investors in Canada, we hope to develop preliminary understanding as to:

- The decision makers, influencers and supporting staff;
- The steps and triggers of the decision making process;
- The key drivers or factors considered and relative weights;
- Information used at each step and its source; and
- How much decisions were made in advance of action being taken.

Feedback provided in key informant interviews will help to further develop DFAIT's investment services to better serve foreign firms looking at Canada as an investment destination.

Do you have any questions before we begin?

If possible, it would be helpful if you could review the interview guide prior to the interview.

Part A. DECISION MAKING PROCESS

For the following questions, please think back to your experience investing in Canada and consider how, when, and why the company made the decision for FDI and to invest in Canada.

A1. What were the steps of the decision making process?

A2. What were the triggers? What motivated the company's need to expand? What propelled the decision forward?

A3. How much were decisions made in advance of action being taken for each step?

PART B. DECISION MAKERS

For the following questions, please consider who made the decision for FDI and to invest in Canada. Consider who were the decision makers and influencers within the company structure at each step.

B1. Where was the decision for expansion made?

B2. Who were the decision makers, influencers and supporting staff? (*Did this differ according to the steps of the decision process?*)

B3. What was the effect of these decision makers' input on the decision for global expansion?

PART C. KEY DRIVERS

For the following questions, please consider the key drivers and weights accorded in the decision to invest in Canada at each step of the decision making process.

C1. What were the key drivers/factors considered and relative weights?

C2. How did the initial drivers/weights vary from those used in the end decision? What motivated this change?

PART D. BUSINESS CASE

For the following questions, please consider the information used to rate the key drivers in the decision to invest in Canada at each step of the decision making process.

D1. What information was used at each step? Where was this information sourced?

PART E. BEST PRACTICES

Please think back to your experience with all investment attraction agencies. Consider why your company made the decision to invest in Canada or elsewhere and the investment attraction practices that triggered this decision.

E1. In your experience, what engagement practices were most successful in investment attraction? Please explain the process.

PART F. ADDITIONAL COMMENTS

F1. Is there anything else that you think we should consider or be aware to understand the MNE decision making process for FDI in Canada? Do you have any additional comments you would like to make?

Thank you for taking the time to participate in this interview!

The Business Expansion Decision Making Process for MNEs investing in Canada

Key Informant Interviews – Investment Promotion Staff

Name: _____ Interview Date: _____
Organization: _____ Time: _____
Title: _____ Tel: _____
Consent Form Signed: Y / N Email: _____
Investment Details:

INTRODUCTION

First, I'd like to thank you for taking the time to speak with me about this project. Your experiences and perspective into the decision making process for MNEs investing in Canada are a valuable addition to this research.

The purpose of this interview is to explore the FDI decision making process for the research being completed on behalf of DFAIT's Investor Services (BIS). Through key informant interviews with DFAIT investment promotion staff and with investors in Canada, we hope to develop preliminary understanding as to:

- The decision makers, influencers and supporting staff;
- The steps and triggers of the decision making process;
- The key drivers or factors considered and relative weights;
- Information used at each step and its source; and
- How much decisions were made in advance of action being taken.

Feedback provided in key informant interviews will help to determine the development of a comprehensive model of how investment decisions were made within multi-national enterprises who have invested in Canada. Findings would potentially be used to inform investment attraction strategy and promotional tools and better direct resources.

Do you have any questions before we begin?

If possible, it would be helpful if you could review the interview guide prior to the interview.

Part A. EXPERIENCE WITH INVESTMENT

We would like to understand the role of government in investment attraction, and how and where FDI fits in to a company's business expansion decision making process. This includes Canada as a location of choice, the role of the business case, and the government's influence on company decision makers.

A1. Please describe your investment related experience.

A1. Please describe your role and interaction with Canadian investor [company name].

Part B. DECISION MAKING PROCESS

For the following questions, please think back to your experience with the company. Consider how, when, and why the company made the decision for FDI and to invest in Canada.

B1. What were the steps of the decision making process?

B2. What were the triggers? What motivated the company's need to expand? What propelled the decision forward?

B3. How much were decisions made in advance of action being taken for each step?

PART C. DECISION MAKERS

For the following questions, please consider who made the decision for FDI and to invest in Canada. Consider who were the decision makers and influencers within the company structure at each step.

C1. Where was the decision for expansion made?

C2. Who were the decision makers, influencers and supporting staff? *(Did this differ according to the steps of the decision process?)*

C3. What was the effect of these decision makers' input on the decision for global expansion?

C4. In your experience, how did this compare to other investments by this company? To other investments by companies in the same sector? To prospective investments that were not successful?

PART D. KEY DRIVERS

For the following questions, please consider the key drivers and weights accorded in the decision to invest in Canada at each step of the decision making process.

D1. What were the key drivers/factors considered and relative weights?

D2. a) How did the initial drivers/weights vary from those used in the end decision? What motivated this change?

b) How did the final drivers/weights vary from those in previous investment decisions by this company? How was this similar to other companies in the same sector? What motivated this change?

PART E. BUSINESS CASE

We would like to understand the role of the business case in investment attraction, and how and where promotion of Canada for FDI fits in to a company's business expansion decision making process. This includes the information and sources used to inform decisions and government's influence on company decision makers.

E1. What information was used at each step? Where was this information sourced?

PART F. BEST PRACTICES

Please think back to your experience with all investors. Consider why companies made the decision to invest in Canada or elsewhere and any noteworthy investment attraction practices by Canada or other jurisdictions that triggered this decision.

F1. In your experience, what engagement practices were most successful in investment attraction? Please explain the process.

PART G. ADDITIONAL COMMENTS

G1. Is there anything else that you think we should consider or be aware of to understand the MNE decision making process for FDI in Canada? Do you have any additional comments you would like to make?

Thank you for taking the time to participate in this interview!