



The location choice of foreign direct investments: Empirical evidence and methodological challenges



Bo Bernhard Nielsen^{a,b,*}, Christian Geisler Asmussen^c, Cecilie Dohmann Weatherall^d

^a *Discipline of International Business, Sydney University, Australia*

^b *Copenhagen Business School, Denmark*

^c *Department of Strategic Management and Globalization, Copenhagen Business School, Denmark*

^d *Kraks Fond, Institute for Urban Economic Research, Denmark*

ARTICLE INFO

Article history:

Received 2 December 2015

Received in revised form 27 October 2016

Accepted 27 October 2016

Available online xxx

Keywords:

Location choice

Foreign direct investments

Global cities

Agglomeration

Institutional theory

Empirical evidence

Methodological challenges

ABSTRACT

The choice of location of foreign direct investments (FDI) by multinational enterprises (MNEs) has been the subject of intense scrutiny for decades and continues to be so. Yet, the vast diversity in methodological approaches, levels of analysis, and empirical evidence precludes a comprehensive understanding of the phenomenon. We review and evaluate 153 quantitative studies on FDI location choice over four decades from 1976 to 2015 across multiple disciplines, including international business, management, economics, urban and regional studies, and economic geography. Our review provides a comprehensive analysis of the empirical evidence and methodological implications to guide future empirical research on FDI location choice.

© 2016 Elsevier Inc. All rights reserved.

Contents

1. Introduction	63
2. Research design for the systematic review	63
2.1. Selection of articles	63
2.2. Coding and categorization of studies	64
3. Theories of FDI	64
3.1. Implications for the location choices of MNEs	65
3.2. Destination location characteristics	65
3.2.1. Pure economic factors	65
3.3. Institutions	66
3.4. Intra-Industry agglomeration and industrial clusters	66
3.5. Inter-Industry agglomeration and global cities	67
3.6. Parent firm characteristics	67
3.7. Location-Firm dyad characteristics	68
4. Data and methodological review	69
4.1. Country and data source bias	69
4.2. Primary or secondary data	70
4.3. Cross section or longitudinal data	71
4.4. FDI stock or flow as dependent variable	71
4.5. Data on scale of investment	71
4.6. Empirical methods and causality	71

* Corresponding author at: Discipline of International Business, Sydney University, Australia.

E-mail address: bo.nielsen@sydney.edu.au (B.B. Nielsen).

5.	Findings	72
5.1.	Pure economic factors hypotheses (H1–H5)	72
5.2.	Institutions hypotheses (H6–H7)	73
5.3.	Industrial clusters hypothesis (H8)	74
5.4.	Global cities hypotheses (H9–H13)	74
5.5.	Parent firm characteristics (H14–H15)	74
5.6.	Firm–Location dyad characteristics (H16–17)	74
6.	Discussion and future research directions	74
6.1.	Data challenges and ways to overcome these	75
6.2.	Methodological challenges and ways to overcome these	75
6.3.	Drivers of FDI location choice: towards an integrated view	76
7.	Conclusion	77
	Part of sample articles	77
	Acknowledgements	78
	References	78

1. Introduction

Foreign direct investment (FDI) continues to be an important driver of international business activities around the World. While subdued by the global financial crisis starting in 2007, investment activities of multinational enterprises (MNEs) have picked up again with global FDI inflows rising by 9% between 2012 and 2013 to \$1.45 trillion according to the 2014 World Investment Report (UNCTAD, 2014). Building on traditional theories of agglomeration and institutional economics, the World Investment Report and other transnational reports provide valuable insights into FDI flow patterns at the national level. At the same time, an increasing amount of evidence suggests that MNEs pay equal attention to sub-national locational advantages offered by local states, municipalities, and cities when selecting a suitable site for their FDI (Goerzen, Asmussen, & Nielsen, 2013; Cheng, 2007; Ho, 2000). These trends have led to an ensuing competition for FDI among countries and sub-national localities based on specific combinations of local factors that may attract certain types of investments.

A large number of studies have examined the determinants of location choice of FDI, and this research stream is arguably reaching a level of maturity where it is valuable to take stock of the empirical evidence as a basis for further advancing knowledge in the field. A systematic review facilitates theory development, closes off areas of inquiry where a plethora of research exists, and uncovers potential new areas where research is needed (Webster & Watson, 2002). In this paper, we provide such a review by developing a framework that allows us to organize and analyze the existing body of quantitative empirical evidence in a systematic way. Specifically, we identify the main hypotheses that this empirical literature has investigated, analyze the research designs deployed in terms of sampling, econometric approach, units of analysis, and data source, and assess the extent to which the extant evidence can be seen to support or refute the theoretical conjectures. Our review thus extends in several ways the recent review article by Kim and Aguilera (2015), who provided a broad overview of the recent FDI location choice literature. Most importantly, while Kim and Aguilera (2015) contributed to our theoretical understanding of the mechanisms underlying MNEs' foreign location choices, our focus is on the empirical evidence of the factors that influence these choices. Specifically, in this article we (1) identify the methodological challenges facing researchers attempting to predict FDI location choice, (2) map the distinct ways in which extant empirical studies have addressed these challenges, and (3) correlate these methodological choices with the empirical support for the various theories in order to assess the validity and confidence of this evidence. To our knowledge, ours is the first study that attempts such a comprehensive analysis of methods and findings in foreign location choice research.

The remainder of this paper is organized as follows. First, we describe the selection process pertaining to the studies included in our systematic review. Next, we categorize and analyze the methodological approaches utilized in the literature in order to provide a framework for evaluating empirical evidence. We then provide a brief overview of the theories and associated hypotheses underlying the FDI location choice literature, and apply this framework to assess the empirical findings. Finally, we discuss the research implications of our analysis and provide guidance for future empirical efforts.

2. Research design for the systematic review

2.1. Selection of articles

To evaluate the methodological and empirical issues in the FDI location choice literature, we compiled a database of articles that empirically examine foreign location choices. Unlike previous reviews that have focused on a limited set of journals (e.g., Dunning, 1998; Kim & Aguilera, 2015), we strived to be as comprehensive as possible in our coverage. As a result, our review includes studies published in a variety of management, international business, economics, geography, and urban planning journals.

To identify relevant articles, we consulted recent reviews (e.g., Dunning, 1998; Kim & Aguilera, 2015) and explored electronic databases with a variety of search terms. We purposely sampled broadly using keyword search terms such as *FDI location*, *investment location choice*, *determinants of location*, and *inward FDI*, but also included theoretical terms such as *agglomeration*, *institutions*, *clustering*, *industrial clustering*, and *global cities*. Because formal search techniques entering index terms or keywords in electronic databases may overlook important studies; we also utilized the snowball search technique (Greenhalgh & Peacock, 2005) by searching the bibliographies of our studies for additional work of relevance. We limited our review to quantitative studies that directly proposed and empirically tested determinants of choice of FDI location; i.e. studies where the dependent variable was either a choice between alternative locations for a given FDI (e.g. foreign subsidiary); or a measure of the extent to which FDI occurred in a given location (e.g. in monetary amounts or counts of investment projects). We excluded studies where the unit of analysis was the location of foreign patents; offshore service projects; or other potential subsets of the firm; as we are interested in the location of entire foreign subsidiaries; or FDI per se. Our search yielded a total of 153 studies; which are included in this review (and marked with asterisks (*) in the reference list). The studies in our database span the years 1976 to 2015. Table 1

Download English Version:

<https://daneshyari.com/en/article/5107122>

Download Persian Version:

<https://daneshyari.com/article/5107122>

[Daneshyari.com](https://daneshyari.com)