

Institution: University of Leeds
Unit of Assessment: C19 Business and Management Studies
Title of case study: Influencing the evaluation, and enhancing the benefits, of foreign investment by private firms and government organizations
<p>1. Summary of the impact</p> <p>This case demonstrates how research by the Centre for International Business University of Leeds (CIBUL) between 2001 and 2008 has been utilised by Nestlé – the world’s largest nutrition company – to improve its communication strategy and evaluate how its foreign investments create value and influence economic development, innovation, environment, society and different stakeholder groups (e.g. employees, suppliers and governments). CIBUL’s research has also (1) improved the services offered by intermediaries such as the investment-promotion arm of the British government (the UKTI) and the UN body for economic development (UNCTAD), and (2) benefited the businesses that these bodies serve by identifying factors that help them internationalise and derive greater value from international expansion.</p>
<p>2. Underpinning research</p> <p>The research was led by Professors Mario Kafouros, Peter Buckley and Jeremy Clegg between 2001 and 2008, and focused on three interrelated research strands: (1) the locational advantages of nations and their impact on firms’ internationalisation [1], [2], [3], (2) mechanisms by which innovation and internationalisation by firms enhance their performance and competitiveness in the global economy [4], [5] and (3) the way in which multinational enterprises integrate their global strategies to create value [6]. The work that forms the scientific underpinning of this case integrates multiple levels of analysis (international-, country-, region- and firm-level) and has been heavily cited.</p> <p>The first research strand found that the performance benefits gained by firms through investing in a particular location are contingent upon their distinctive capabilities and resources. This differs significantly between firms from emerging countries (e.g. China and India) and developed nations (e.g. the UK and Germany). These findings suggest that the location strategy of one firm cannot be transplanted to another. A foreign investment location choice which is optimal for one business might not be beneficial for another firm. In other words, the practical implication is that the benefits any one firm receives from a given economic and institutional environment may not be available to other businesses. These findings challenge taken-for-granted assumptions about the location of foreign affiliates, and have important implications for how managers internationalise their businesses.</p> <p>The second strand of research identified the way in which various factors help firms innovate and create value by sourcing scientific talent, knowledge and technologies that reside in different industries and countries around the world. The findings show that a firm’s ability to access and combine globally distributed knowledge reservoirs within one organisation is determined by (1) the manner in which their network of affiliate firms is structured and (2) the international breadth and depth of this network. When multinationals spread their operations across many geographical markets, they benefit more from external knowledge than when they concentrate their activities in few countries. This, in turn, helps firms to co-develop innovations with international collaborators. This research strand captures synergies within multinational firms, and deepens understanding of how firm- and location-specific factors jointly enhance firm performance.</p> <p>The third research strand integrates the two previous strands with each other to create the so-called “global factory” framework. The global factory is a structure through which multinational enterprises integrate their global strategies using a combination of innovation, distribution and production of both goods and services. The results of this work identify (1) the difficulties that both developed and emerging market firms face in the global economy and (2) strategies that firms can adopt to overcome various challenges and generate value from their foreign operations.</p> <p>These three research strands have contributed to CIBUL being viewed as one of the world-leading international business research centres, according to independent evaluations published in international peer-reviewed journals by Chan et al. (2006) and Xu et al. (2008).¹ They have also</p>

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informed the location choices and internationalisation behaviour of firms, and influenced the services offered by various government organisations in the UK and abroad (discussed in Section 4).

¹ Chan, K., Fung, H. and Leung, W. (2006) International Business Research: Trends and School Ranking. *International Business Review*, 15(4), 317-338.

Xu, S. Yalcinkaya, G. and Seggie, S. (2007) Prolific Authors and Institutions in leading International Business Schools. *Asia Pacific Journal of Management*, 25(2) 189-207.

3. References to the research

The underpinning research has received recognition in the form of (1) papers published in high-impact-factor international journals; (2) prestigious best-paper awards from the Academy of International Business (AIB) and the British Academy of Management (BAM); (3) funding from research councils (e.g. (i) and (ii)) and multinational companies (Nestlé(iii)); and(4) uptake by government and international organisations (e.g., UKTI (iv) and UNCTAD).

Peer-reviewed journal articles

[1]Buckley, P. J., Clegg, J., & Wang, C. (2002). The Impact of Inward FDI on the Performance of Chinese Manufacturing Firms. *Journal of International Business Studies*, 33(4), 637–655. doi:10.1057/palgrave.jibs.8491037

[2]Buckley, P. J., Clegg, J., & Wang, C. (2007). Is the Relationship Between Inward FDI and Spillover Effects Linear? An empirical examination of the case of China. *Journal of International Business Studies*, 38(3), 447–459. . doi:10.1057/palgrave.jibs.8400274

[3]Buckley, P. J., Clegg, J., Cross, A., Zheng, P., Voss H., Liu, X. (2007). The Determinants of Chinese Outward Foreign Direct Investment. *Journal of International Business Studies*, 38(4), 499–518. doi:10.1057/palgrave.jibs.8400277

[4]Kafouros, M. I., Buckley, P. J., Sharp J., & Wang, C. (2008). The Role of Internationalization in Explaining Innovation Performance. *Technovation*, 28 (1–2), 63–74. doi:10.1016/j.technovation.2007.07.009

[5]Kafouros, M. I. & Buckley, P. J. (2008). Under What Conditions do Firms Benefit from the Research Efforts of Other Organizations? *Research Policy*, 37(2), 225–239. doi:10.1016/j.respol.2007.11.005

[6]Buckley P.J. (2009). The Impact of the Global Factory on Economic Development. *Journal of World Business*, 44(2), 131–143. doi:10.1016/j.jwb.2008.05.003

Research grants

(i) ESRC Fellowship,(2005). Title: R&D, Knowledge Spillovers and Productivity Growth. **M. Kafouros**, £32,601

(ii) Project Funded by the EPSRC: Knowledge, Skills and Productivity in Retailing. **J Clegg** (co-I), **I. Grugulis** (PI), Dr D.A. Higon, A.M. Williams. £206,650

(iii) Project funded by Nestlé (2008): Value Creation and Sharing by Nestlé: Economic View and Measurement. **P. Buckley** (PI), N. Forsans, **M. Kafouros** and H. Voss. £65,750

(iv) Project funded by UK Trade and Investment (UKTI), (2009): Impact of the Current Recession on where British Firms Should be Looking to Trade and Invest Overseas. **P. Buckley** (PI), **A. Cross**, **M. Kafouros**, and H. Voss. £17,670

4. Details of the impact

Multinational Enterprises: Nestlé

The findings of the first and third strand of CIBUL's research regarding the effects of foreign investment and the locational strategy of multinational firms are used globally by Nestlé – the world's leading nutrition company which employs 280,000 individuals and has operations in over 200 countries. Nestlé has employed CIBUL's research, and more specifically a conceptual framework developed by CIBUL, to assess the impacts of its international operations, develop its

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value creation strategy, and improve its corporate communication plans. Nestlé has made extensive use of the research to measure how its actions and investments both create value and benefit societies in the countries where it operates (both in home and host countries) – for example, the construction of its Nespresso factory in Avenches (Switzerland) and its milk district operations in Pakistan. [A, B]

Nestlé has incorporated a conceptual framework developed by CIBUL in its annual reports and global websites – this is now part of Nestlé’s toolkit for evaluating its overall economic, innovation and social impacts on different stakeholder groups in various countries around the world [A, B]. According to Nestlé itself, the research has helped to “measure the company’s overall net impact on its stakeholder groups” [A]. Put differently, the framework has enabled the company to improve its corporate communication strategy, more effectively conveying the different facets of its economic, innovation, social and environmental contributions to various groups including consumers, suppliers, industry, employees and governments. This research is useful to companies such as Nestlé because it also identifies the channels and mechanisms through which the foreign investment of multinational enterprises can be more successful. To enhance this impact further, Nestlé commissioned a report from CIBUL.

The research of CIBUL has also been used as a basis for discussion, analysis and decision making in the Seoul G20 Business Summit. More specifically, in November 2010, the Chairman of Nestlé and Convenor of the Seoul G20 Business Summit Group on Foreign Direct Investment (FDI) emphasised in his foreword that CIBUL’s research findings not only benefited the company’s senior managers but also “...stimulated a systematic debate on and analysis of the impacts of FDI... and served as an important input towards the work of the G20 FDI Working Group [which included CEOs from several leading multinationals]”. He further emphasised the role of this research by saying that “For companies, policy makers and the wider public, it is important to understand where and how business and more specifically FDI can have a positive impact on stakeholders and society at large”. [C]

International policy agenda: United Nations

CIBUL’s research has shaped the policy agenda of the United Nations Conference on Trade and Development (UNCTAD), particularly in the *World Investment Report (WIR)*. The *WIR* is the world’s most authoritative analysis of international business and is extensively used by the UN, policy units, statistical offices and government institutions. The ‘Global Factory’ theory and findings from CIBUL’s research on optimal location, innovation and foreign investment are a key part of the *WIR 2011*, for which **Buckley** was principal consultant, devising its conceptual structure.

The worldwide reach of the impact is made evident by the fact that more than 115,000 people from 160 countries (including around 1,000 policy-makers) have downloaded the report [D] [E]. The Director of UNCTAD’s Investment and Enterprise Division, reported that the *WIR* and its forum offered ‘unique opportunities for cross-fertilisation and networking between a wide range of investment stakeholders, allowing the initiation of concrete investment projects and policy initiatives. The success of the Forum is very much owed to you [Buckley]. Your contribution helped elevate the Forum to the highest standard, and helped establish it as the new centre of gravity for new international investment and policy formulation’. [F].

British business community and intermediaries

CIBUL’s research has led to service innovations in the advisory sector via intermediaries such as the UK Trade & Investment (UKTI) and the China–Britain Business Council (CBBC). More specifically, the UKTI funded CIBUL to conduct two research projects, and the findings were used to write the Chinese Regional Cities report. This research report, which is the outcome of collaboration between CIBUL and CBBC, has benefited British businesses by identifying which locations and markets offer superior business opportunities following the global financial crisis [G]. Therefore, CIBUL’s first two research strands have benefited these bodies by enabling their advisors to articulate and integrate in written reports and in the various workshops described below (1) how particular locations fit with firms’ strategic goals and capabilities, (2) the factors that UK firms should consider when sourcing scientific talent, knowledge and technologies from abroad and (3) how firms can derive greater value from investment locations in China.

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When the Chinese Premier (Wen Jiabao) visited the UK in 2009, he and then-Prime Minister Gordon Brown discussed the findings of the Chinese Regional Cities report at 10 Downing Street. The two leaders agreed to promote UK trade and investment in China's Regional Cities, and following the meeting, the Prime Minister said that "...the agreements, which include a memorandum of understanding on the promotion of UK trade in regional cities in China, would help double the UK's exports to the country to £10 billion by 2010" [H]. This view was reinforced by the UKTI which announced that "Britain and China signed a Memorandum of Understanding (MoU) committing both countries to work together to highlight opportunities for UK business outside the traditional centres ... The agreement follows on from a report on Chinese Regional Cities" [G].

Since 2009, the research has been used in 17 workshops in the UK and China run by the UKTI, the British Consulates-General in China and CBBC. Nearly 1,000 companies, over 200 in China, attended the workshops. British firms took part in business trips to the cities on the location shortlist drawn up by the research [I], and the international press recognised the importance of the findings [J]. A CIBUL-CBBC study found that nearly 50% of the participating investors indicated the study had an impact on their thinking towards investing in China.² The CBBC has presented this research at fora in the UK and China (CBBC Regional Cities Roadshow). As a result, CIBUL's research catalysed numerous city missions, leading to businesses-seeking opportunities.

² An all-day HEIF 4-funded UK-China Small and Medium-Sized Enterprise (SME) Forum held at the University of Leeds, organised by CIBUL and the CBBC.

5. Sources to corroborate the impact

- A. Nestlé Creating Shared Value Report 2009, p.4 shows the conceptual framework developed by CIBUL.
- B. This website confirms that the conceptual framework developed by CIBUL was also included in the global website of Nestlé: www.nestle.com/CSV (the content of which has now changed but a record has been kept, available upon request)
- C. Seoul G20 FDI working group foreword from the Chairman of Nestlé. This foreword is included on p.2 of the report.
- D. Letter of testimony from Chief, Investment Research Issues, UNCTAD
- E. UNCTAD download statistics report – January 2012
- F. Letter of testimony from Director, Division on Investment and Enterprise, UNCTAD
- G. Announcements from the CBBC and the UKTI referring to the impact of the research [downloaded 13/10/2013 and 03/02/09 respectively]:
http://www.cbbc.org/guide/chinese_regional_cities/chinese_regional_cities
<http://webarchive.nationalarchives.gov.uk/20081211180257/newsroom.uktradeinvest.gov.uk/content/asia-pacific/pm-gordon-brown-calls-for-rapid-growth-in-uk-china.ashx>
- H. UK-China Summit: Government webpages outlining the key outcomes 2009 [downloaded 14/02/09]:
<http://webarchive.nationalarchives.gov.uk/20090210005941/http://www.number10.gov.uk/Page18213>
<http://webarchive.nationalarchives.gov.uk/20090210005941/http://www.number10.gov.uk/Page18214>
- I. *Britain in 2010* (annual magazine of the ESRC), 'New Business Opportunities in China's Regions', pp. 76–77
- J. *Financial Times* "UK companies neglect regional deals in China" August 18th 2008; *Financial Times* "Partners Surface on Redrawn Map of the World" 12 February 2010