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What drives European multinationals to the EU neighbouring countries? A mixed methods analysis of Italian investment strategies

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Abstract

This paper aims to investigate the economic integration between the European Union and its neighbouring countries by exploring the location drivers of Italian Multinational Enterprises (MNEs) in 33 destination countries including the New Member States of the European Union (NMs) and the European Neighbouring countries (NCs). The paper compares market- and efficiency-seeking motivations with asset-seeking strategies. The analysis is based on a mixed-method approach. The quantitative analysis assesses the location determinants of 518 Italian MNEs that invested in the area in the years 2003-2008, while qualitative information on strategic location decisions is collected by means of in-depth interviews with executives in two of the largest Italian MNEs active in the region. Market-seeking considerations are still predominant drivers of location decisions in EU Neighbouring Countries together with resource-seeking motivations. However, different MNEs develop diversified strategies to increase their access to these areas which are of increasing interest for global investors.

JEL Codes: F23, R30, P33

Keywords: European Union, European Neighbourhood Policy (ENP), Multinationals, FDI.

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1. Introduction

The progressive enlargement of the European Union (EU) has made the economic and political relationships with its neighbours a highly sensitive policy issue. With the EU Enlargement the security, political stability and economic prosperity of larger shares of the Union are progressively more intertwined with those of Candidate and Neighbouring countries. Following the 2004 and 2007 eastward enlargements, the European Neighbourhood Policy (ENP), and other regional and multi-lateral cooperation initiatives (e.g. Eastern Partnership; the Euro-Mediterranean Partnership; the Black Sea Synergy and the EU-Russia strategic partnership), have aimed at strengthening the links between the EU and its neighbourhood in institutional, political, social and economic terms. The significant increase in trade flows (according to the European Commission total trade between the EU and its ENP partners was worth €230 billion in 2011) and labour mobility (the EU issued 3.2 million Schengen visas to ENP partners in 2012) has been accompanied by a generalized increase in Foreign Investments in particular towards the ENP-South countries. Before the 2007 economic crisis, FDI flows in the Mediterranean region accounted for 2.8% of the world total (2006) while investments in Eastern countries remained largely concentrated in Ukraine, ranging between 0.5 and 1% of the world total (DRN, 2013): the EU accounted on average for 34% of total investments in the Mediterranean countries (while no comparable data are available for Eastern countries, but EU FDI represented around 80% of the total in Ukraine) (DRN, 2013).

Overall, it is generally recognised that further integration with the EU can offer neighbouring countries more opportunities to attract valuable foreign capital (van Geenhuizen and Nijkamp, 1998). Nonetheless, FDI flows are often hindered by relevant barriers: poor institutional quality remain a fundamental cross-country issue for the entire region (Ascani et al., 2015). While “corruption has been identified as a major obstacle to investment and business, both in eastern and southern ENP countries” (European Commission, 2013: 10), very limited systematic research has been conducted so far on the relative importance of other investment drivers/barriers that might play an important role in this emerging context. Market-seeking (associated with increasing market size), and resource- and efficiency-seeking (associated with unavailable or cheaper tangible or intangible resources and assets, such as raw materials, labour and

skills) motives remain strong pulling factors that interact with geographical and institutional proximity, sustaining the increasing flow of EU investments in the region. In this respect, the radical economic adjustments undertaken by most countries of the EU neighbourhood in recent years in the direction of a stronger market economy also represent a relevant force for such a sustained inflow of EU capital (Turnock, 2001). Similarly, other forms of place-marketing strategies are adopted in the context of the enlarged Europe for the attraction of foreign investors (Young, 2005).

This paper aims to shed new light on the strategic decisions of European MNEs when balancing the repulsive and attractive forces that shape the geography of their investments in the EU neighbouring countries (NCs) and in the ‘new’ member states (NMs) of the EU. The coverage of 33 destination countries among NCs and European NMs¹ makes it possible to analyse the wide spectrum of economic and institutional integration with the ‘core’ of the EU-15, from the full integration of the NMs into the Union, to the preparation for the EU single market of the Accession and Candidate countries (ACCs), to the looser association of the ENP East and South. In terms of origin of the investments, the focus of the paper is on the case of Italy, allowing us to ‘net out’ any ‘home market’ bias in MNE behaviour, and to compare their strategies with reference to the highly diversified context of the NCs and NMs. The case of Italy is particularly suitable for this purpose: Italy is a founding member of the European Union that forms part of the ‘core’ of the Union but, at the same time, benefits from closer geographical proximity with both NMs and NCs than other ‘old’ EU members. In addition, Italian foreign and commercial policies have historically devoted a special attention to the role of the country as a ‘bridge’ between the ‘Old’ Europe and the EU neighbourhood (Bank of Italy, 2000).

The analysis of investment strategies in both NMs and NCs needs to take into account not only the variety of contextual conditions of the host economies but also the diversity of the entry modes of foreign firms into the local markets (European Commission, 2014). As a consequence, this paper adopts a mixed methods approach to the analysis of the

¹ In this paper NCs are (i) Accession and Candidate Countries (ACC): Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, Serbia and Turkey; (ii) ENP Southern countries: Algeria, Egypt, Israel, Libya, Lebanon, Morocco, Syria and Tunisia; (iii) ENP Eastern countries: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine; and (iv) Russian Federation. EU NMs are all 2004 and 2007 European enlargement countries except Cyprus.

location strategies of Italian investments in the area. Drawing on Dunning's Ownership-Localization-Internalization (OLI) eclectic paradigm, the paper uses regression analysis in order to assess the role of different national drivers in affecting Italian greenfield investments' location behaviour.² This section of the analysis is based on detailed data at the level of individual investment project. However, in order to capture the complex interaction between greenfield investments and other entry modes (in particular joint ventures and acquisitions) the quantitative analysis is complemented by two in-depth firm-level case studies covering two of the largest Italian multinational enterprises operating with different modalities in both the EU NMs and NCs areas. Interviews are collected at the level of headquarters with top level managers and executives, presenting a rich informative basis on the strategic behaviour and organisational choices of MNEs in their cross-border operations in NCs and NMs.

In terms of contribution to the existing debate, the paper rests on the idea that MNE investments play a central role in the on-going process of integration between the EU and its neighbouring countries. Such a critical role has been rarely investigated with mixed methodologies, which instead offer the opportunity to analyze more in-depth the interaction between patterns of economic integration and business strategies of MNEs. Therefore, the contribution of the present study is essentially empirical. In this respect, the paper aims at providing a structured analysis of associations between recipient countries' attributes and corporate behavior in the quantitative part, fundamentally assessing the role of location advantages (L) of the eclectic paradigm to motivate Italian MNEs to pursue internalization (I) strategies. Subsequently, the qualitative section of the article zooms into the investment behavior of two selected Italian multinationals, capturing the full complexity that is typical of MNE organizational choices and that is rarely detailed by existing quantitative studies. In this respect, we are also able to explore MNE characteristics as drivers of their location choices, with the aim of capturing the forms of ownership advantages (O) that lead to internalization (I). Therefore, by combining quantitative and qualitative insights in a novel way, this article provides new empirical evidence on the location strategies of MNEs taking into account the

² The focus on greenfield investment – customary in the existing literature on MNE location decisions – is justified by the lack of reliable geo-coded data on Mergers and Acquisitions for the countries under analysis, as well as by the stronger reliance on greenfield as an entry mode in emerging economies.

interdependence between the different components of Dunning's OLI paradigm, that is destination country determinants and firm-level organizational features that drive cross-border corporate strategies.

The main findings of the mixed-methods analysis for Italian MNEs in the EU neighbourhood suggest that, while some common elements for localisation – such as market access considerations as well as sensitivity to cost factors – can be generalised, there is evidence of an intrinsic heterogeneity in the strategies of MNEs along sector and functional axes, ranging from the role of inter-governmental agreements to the importance of institutional assimilation of the MNE in the local context. This diversity across corporate strategies suggests that the development of 'framework conditions' within the picture of further integration between the EU and its neighbourhood is at least as important as the reinforcement of more typical FDI attractors.

The paper is organised as follows. The next section briefly outlines the characteristics of Italian foreign investment in EU NMs and NCs. Section 3 introduces the quantitative analysis of Italian MNEs location strategies: the empirical model is presented and justified and the results of the regression analysis are discussed. Section 4 briefly introduces the corporate profile of the Italian MNEs covered in the study, whilst section 5 analyses the evidence from the in-depth interviews with executives. Section 6 concludes, offering some directions for future research.

2. Italian Foreign Investments in EU New Member States and Neighbouring Countries

Due to its geo-political position, Italy has always been considered a 'bridge' between Europe and the ENP countries (Bank of Italy, 2000). The awareness of this strategic position has strengthened Italy's support for ENP actions (European Commission, 2004) and reinforced national interests in the area in terms of support for economic development, trade and investment (European Commission, 2014). Italy is a key player in global investments towards the EU NMs and NCs. According to the International Monetary Fund (IMF) Italy's global outward investment has reached \$535 billion in

2012, with \$69.42 billion (approximately 13% of the total) going to the area of interest for this paper, suggesting that the region is extremely important for Italian foreign operations. Table 1 shows Italian investments in the countries of the area, combining information from the Coordinated Direct Investment Survey of the IMF³ in the most recent available year with data on Italian new investment projects in the period 2003-2008 from the *FDi Markets* database created by Financial Times Business.⁴ IMF macro-economic FDI data provide us with a complete and updated picture of all Italian FDI flows in the area. However, IMF information is only available after 2009 and does not include any detail on the nature of the investments. Conversely, *FDi Markets* data contain detailed micro-level information on new foreign investment projects undertaken in the region with sector and function breakdown based on the combination of a variety of local and media sources. The two data sources are highly correlated (65% correlation for the individual countries' shares of total investments; 93% correlation for the regional sub-totals reported in Table 1), confirming that *FDi Markets* micro-data – used here in the quantitative analysis – offer a reliable picture of investment patterns in the area, which has remained largely unchanged after the 2008 economic crisis as confirmed by the high correlation with IMF 2012 data.

Table 1 shows that the majority of Italian foreign operations in the region are concentrated in EU NMs (46.82% of total operations in the area according to the IMF; 45.39 in *FDi Markets*), followed by ACC countries (15.43% for the IMF; 18.52% in *FDi Markets*), ENP Southern (20.48% and 10.62% respectively) and ENP Eastern (2.09% for IMF and 6.37% for *FDi Markets*). Furthermore, a notable share of greenfield investment from Italy locates in Russia (IMF: 15.18%; *FDi Markets*: 19.11%). The table suggests that *FDi Markets* is under-estimating the share of investments in the ENP Southern countries (ENP-S): indeed, the dataset looks at the number of new investment projects,

³ <http://cdiis.imf.org/>

⁴ *FDi Markets* is a leading source of information on Foreign Direct Investments, providing data to the UNCTAD report and the World Bank. For each project detailed information is available on the investor, destination country and city, and main business function involved in the investment abroad. Under the constraint of the sample size and of the statistical data available for the host economies under analysis we are unable to use information on business functions and cities. The empirical analysis - in line with other existing empirical studies using this database - is focused on the number of new FDI Projects instead of the monetary value of each deal. The monetary values provided in the database for the countries under analysis are mainly based on estimates and as such are not sufficiently reliable to be included in the econometric estimations.

and not at their financial value. The difference between the two measures suggests that Italian investments in the ENP-S (as will be confirmed by the interviews) tend to be relatively more capital intensive than in the eastern countries (ENP-E). Table 1 also highlights the importance of Russia as a destination: it is the single most attractive country in the area under analysis and, as such, it is an important benchmark for the assessment of alternative investment locations in the area. Other very relevant locations for Italian investors are Romania, Bulgaria and Poland in the EU NMs area, with shares equal to 11.2%, 9.65% and 7.92% respectively. Ukraine in the ENP-E area (4.25%) and Tunisia in the ENP-S (3.28%) represent the main regional destinations. With respect to the ACC countries, Italian operations appear more evenly distributed, with an important role played not only by Turkey (4.4%) and Serbia (4.05%), but also by countries such as Albania (3.47%) and Croatia (3.28%).

[TABLE 1 AROUND HERE]

Table 2 shows Italian foreign investment in the area by business activity (only available from *FDi Markets*). Following Nielsen (2008) in classifying activities in core and support business functions, it becomes apparent that 48.45% of Italian foreign operations in the area involve ‘core business functions’, while 51.53% can be defined as ‘support activities’. Core functions are strongly dominated by investment in manufacturing activities (42.47% of total), suggesting that most Italian MNEs target the area for their ‘production’ activities. With respect to support functions, investments are dominated by ‘marketing, sales and after sales servicing’ (32.23%) and ‘administrative and management functions (13.12%)’. Within the former category, investments are strongly concentrated in ‘retail’ activities (23.36%) and ‘sales, marketing and support’ (8.49%); whereas the ‘business services’ sub-category (12.93%) dominates the latter. The functional classification of the investments suggests that Italian MNEs are attracted in the area by two fundamental forces: low-cost production sites (manufacturing investments) and large and growing markets (sales-related investments).

[TABLE 2 AROUND HERE]

Table 3 presents Italian MNEs investment projects by broad sector of activity. The large majority of FDI is concentrated in the manufacturing sector (67.95%), while services represent a smaller share (26.45%). The bulk of manufacturing foreign activities is concentrated in medium-low technology sectors (47.3%, with textiles accounting for 26.64% of the total), but there is also a non-negligible share of operations carried out in high-medium technology sectors (20.66%). Investment in high knowledge-intensive services (16.6%) is higher than low knowledge-intensive services (9.85%), and it is mostly dominated by financial services (13.71%). The sectoral analysis suggests that while business functions are polarised around two key activities, a broader variety of sectors are involved in the internationalisation strategies of Italian investors in the area.

[TABLE 3 AROUND HERE]

This preliminary descriptive evidence on the geography of Italian investments in the observed area reflects the more general trends highlighted in the existing literature. Technological change and the process of EU integration have favoured the structural re-organisation of Italian foreign investments in traditional sectors such as textiles and footwear, with the search for new investment targets and international value chain networks (Amighini and Rabellotti, 2006; Carabelli et al. 2009; Dunford, 2006). EU NMs and NCs have benefitted from such rationalisation and restructuring processes, receiving a relevant share of Italian ‘production’ and ‘sales’ investments. Italian ‘production’ investments have been pushed by the strong labour-intensive specialization of the national industrial base, confronted with increasing domestic labour-costs and reduced profit margins in the absence of the competitive devaluations of the Italian Lira typical of the 1980s and early 1990s (Resmini, 2000). Conversely, ‘sales’ investments reflect the increasing pressure for access to new (often less sophisticated) markets for Italian products and services. On a European scale, it has been suggested that ENP countries strongly benefit from EU foreign investment, which carry more advanced technological knowledge and managerial practices (Monastiriotis and Borrell, 2013). This geography of foreign investment is also reflected in the nature of the trade flows between the EU and

NMs and NCs (Boschma and Capone, 2013; Petrakos et al., 2013; Pinna, 2013), with the latter specializing in less technologically advanced labour-intensive goods.

3. Empirical Analysis: a mixed methods approach

The empirical analysis of the investment strategies of Italian MNEs is based on a mixed method strategy. A quantitative location choice model is used in order to explore the processes discussed above in a systematic way making it possible to identify the investments drivers after controlling for sectoral and functional factors. A set of in-depth interviews will add further interesting qualitative insights on the nature and heterogeneity of MNE preferences.

3.1 Quantitative model and data

In line with existing empirical literature employing count data as a measure of the location choices of foreign firms (e.g. Schmidheiny and Brülhart, 2011; Becker et al., 2012), a Poisson regression model is adopted to investigate the relationship between a set of country-level attributes and the location decisions of 518 Italian greenfield investment in the region in the period 2003-2008.⁵ Our data do not provide information on capital flows, but contain indications on whether MNEs undertake a new investment in a specific destination country. Hence, the number of investments attracted by each country is modelled as a function of a set of national characteristics that can be referred back to two key investment motives mentioned above – market-seeking and resource- and efficiency-seeking motives – after controlling for general rule-of-law conditions and geographical and institutional proximity.

The following Poisson equation is then estimated by Maximum Likelihood (ML):

⁵ 2003 is the first year covered by the *FDi Markets* database, whilst 2008 is the last year not affected by the financial and economic crisis, after which FDI has become extremely volatile. The comparison with 2012 IMF investment data has confirmed that *FDi Markets* data offer a reliable picture of the geography of Italian investments in the area.

$$\begin{aligned}
Ita\ invest_{it} = & \alpha + \beta_1 market\ size_{it} + \beta_2 gov.\ consumption_{it} + \beta_3 distance_{it} \\
& + \beta_4 exports_{it} + \beta_5 nat.\ resources_{it} + \beta_6 rule\ of\ law_i + \beta_7 education_{it} \\
& + \beta_8 average\ wage_{it} + \beta_9 agglomeration_{it} + \beta_{10} Italian\ presence_{it} \\
& + \beta_{11} EU\ membership_{it} + \beta_{12} colony_i + \beta_{13} stock\ of\ fdi_{it} + \delta + \varepsilon_{it}
\end{aligned}$$

Where the dependent variable *Ita invest_{it}* is the count of Italian investment in recipient country *i* in year *t*. The explanatory variables are explained in what follows.

Market-seeking

Market size_{it} is the log of National GDP at constant prices (US dollars 2005) in country *i*, built on United Nations data. This is meant to capture the effect of the internal demand on the choice of Italian MNEs to locate in recipient countries. There is ample evidence in the empirical literature that this is a relevant pull factor for FDI and MNEs strategies (e.g. Wheeler and Mody, 1992; Chen and Moore, 2010).

Government consumption_{it} stands for general government final consumption expenditure as a share of GDP in country *i* and year *t*. This represents a proxy for the propensity of the government to incur in public spending and it might represent a relevant demand factor for MNEs, although a larger government role is frequently associated to inefficiencies and rent-seeking (e.g. Shleifer and Vishny, 1999). This measure is taken from the World Development Indicators.

Agglomeration_{it} represents the role of agglomeration economies in attracting foreign investment and it is measured by the share of urban population in country *i* and year *t*, as reported in the World Development Indicators. There are good reasons to believe that more agglomerated areas are more attractive for foreign investors due to virtuous cycles of externalities (e.g. Guimarães et al., 2000). However, considering the characteristics of Italian MNEs activities in the area, that are strongly skewed towards Medium-Low technology manufacturing, we might also expect that these operations are located far from cities to avoid congestion costs.

Efficiency- and resource-seeking

Average wage_{it} is indirectly measured by the log of per capita GDP in county *i* and year *t*, calculated on GDP and population data provided by the World Bank. Data on wages for most countries in the area are not available or not homogeneous. GDP per capita is a generally accepted proxy for the average productivity of an economy, and it is highly correlated with the capacity of different countries to pay higher/lower average wages based on domestic productivity. Existing empirical evidence on FDI in Central and Eastern European countries suggest that MNEs tend to locate in these areas for the large supply of cheap labour (Resmini, 2000). This hypothesis seems reasonable in the present context, also keeping in mind that investments of Italian MNEs are mostly concentrated in basic production activities.

Education_{it} captures the average education level in the host economy *i* at time *t*. This is the log of the ratio between secondary school age population and total population provided by UNESCO. Considering the large set of recipient countries under analysis, and their diverse development levels, this is the only available measure for plausibly grasping the effect of education. The empirical evidence points out that FDI are attracted by locations endowed with higher human capital (e.g. Noorbakhsh et al., 2001; Crescenzi et al., 2014). Nevertheless, as seen in Tables 1-3, considering that Italian MNEs tend to invest largely in medium-low technology manufacturing and retail activities, we might also expect that they do not look for high-skilled human capital in the area.

Natural resources_{it} indicates total rents from natural resources as a share of GDP in country *i* and year *t*. The literature has reported the existence of foreign operations from MNEs aimed at exploiting natural resources in the host economies (e.g. Asiedu, 2006). This is relevant to test here considering the set of countries under analysis, which includes large oil and natural gas producers. This measure is taken from the World Development Indicators.

National Framework Conditions

Rule of law_i is a proxy variable for quality of the national institutional environment in host country *i*, based on the World Governance Indicators. These are aggregate indicators of different aspects of governance and institutional context ranging from 2.5 to -2.5 with higher values associated with more effective rule of law. Existing empirical evidence on

the role of institutional factors in determining FDI and MNEs location behaviour tend to suggest that foreign investors search for stable and reliable institutional settings to locate their operations (Altomonte, 2000; Phelps and Waley 2004; Rabbiosi and Santangelo 2014; Ascani et al., 2015). The measure employed in the analysis is averaged across years in order to avoid the time issues associated with this data in the short term (World Bank, 2015).

Degree of Integration/Institutional Proximity

Exports_{it} stands for the value of exports of goods and services as a share of GDP in country *i* and year *t*. We expect a positive correlation between Italian MNEs location decisions and the importance of exports in host economies as a sign that MNEs interact with recipient countries also through trade: in fact, they might locate operations abroad and re-export goods and services, suggesting an export-platform rationale of foreign investment (e.g. Ekholm et al., 2007). This measure is based on the World Development Indicators.

Italian presence_{it}, is a stock variable generated on the basis of previous investment in the same destination country *i* by nationality (i.e. other Italian investment). This is to detect any pattern in the decisions of Italian MNEs that may follow national flows on the basis of shared psychic and cultural/language elements that tend to attenuate risk (e.g. Beugelsdijk and Mudambi, 2013). This measure is constructed with data from *FDI Market*. In order to control for the effect of the general stock of FDI in a recipient economy, regardless of the country of origin, we also include *Stock of fdi_{it}*. This is constructed as the previous stock variable but it takes into account all investment undertaken in a location.

EU membership_{it} and *colony_i* are dummy variables that capture specific characteristics of host countries in term of integration or political ties (Phelps, 1997): the former indicates whether country *i* is an EU member in year *t*, whilst the latter indicates whether country *i* had a past colonial relationship with Italy (these measures are generally provided by the CEPII).

Geographical Proximity

$Distance_{it}$ refers to the geographical distance between host country i and Italy I , as provided by the CEPII. The literature has emphasized the importance of geographical distance in affecting trade and FDI via transaction, management and communication costs, arguing that most proximate locations are generally preferred (e.g. Silva and Tenreyro, 2004).

Finally, δ represents country-year dummies and ε_{it} is a random error term.

3.2 Qualitative analysis

The overall picture of the drivers of Italian investments in the area and their location strategies obtained through the regression analysis is complemented with qualitative analysis of specific case studies of Italian Multinationals with multiple investments in the EU-15 (the core of the EU) and in the countries of the area under analysis. Two major Italian MNEs fulfilling these criteria have been selected for the case studies: Finmeccanica and Saipem. A short presentation of these companies and their activities in the area will be followed by the analysis of the interviews⁶ with key executives in both firms.⁷ The two selected MNEs are among the key actors in Italian foreign investments in the area of interest with multiple investment projects in a variety of countries. This diversity of location choices makes it possible to gain further interesting insights on the heterogeneity of strategic location considerations while keeping investing company characteristics constant.

4. A quantitative picture of Italian MNEs' investment strategies

Table 4 shows the results for the estimation of the Poisson regression model. The regression diagnostics confirm the robustness of the results and the goodness-of-fit of the model. Column 1 includes all investments drivers: proxies for market-seeking, efficiency- and resource-seeking, national institutions, degree of integration and institutional and geographical proximity. In columns 2 and 3 additional controls for degree of

⁶ Interviews with executives were conducted at the company headquarters on April 2, 2013 and May 31, 2013 (Finmeccanica, Rome); and June 3, 2013 (Finmeccanica, London); 8 April, 2013 (Saipem, Milan).

⁷ The guidelines/questionnaire used for the semi-structured interviews with the executives is available on request from the authors.

integration/institutional proximity are included: the pre-existing stock of Italian investments and EU membership together with a control for the colonial past of the country. In column 4 the total stock of foreign investment is also included as a control for total agglomeration of foreign activities in the host economies. The interpretation of the estimated coefficients is focused on sign and significance, rather than on the magnitude of the point estimates.

Market-seeking factors exert a significant influence on the attraction of Italian foreign operations in the observed economies: *ceteris paribus*, countries with larger internal markets are more likely to be chosen by Italian investors. In addition, as also supported by the interviews in the qualitative section, not only private demand exerts a crucial role for investments in the area, but also public procurement remains central in a number of sectors and fields of activity: the intensity of government consumption is in fact a positive and strongly significant predictor of the presence of foreign operations in the area. The evidence on the role of both ‘private’ and ‘public/government-led’ demand is robust to the inclusion of additional controls for the degree of integration/ institutional proximity between the various countries and Italy (columns 2 and 3). What is insignificant in all specifications is the degree of concentration of the population in urban areas (‘Agglomeration’), suggesting that urbanisation economies are not a relevant ‘attraction’ force for Italian investment projects.

The high sensitivity of foreign investments to cost factors and efficiency motives is confirmed by the negative and strongly significant impact of average wage levels: high wages discourage investments. Such a negative impact is not mitigated by higher average skill levels: on the contrary, countries with a larger share of secondary-educated people tend to attract – *ceteris paribus* – less foreign investments. The coefficient of the ‘Education’ proxy is always negative and becomes significant in column 2, after controlling for the stock of pre-existing investments. Once other Italian MNEs have invested in the country – facilitating the upgrading of local suppliers and the provision of key standardised skills – the overall level of education of the population discourages new investments. This aspect will be further investigated with the case study analysis. Furthermore, the presence of natural resources exerts a positive and highly significant impact on FDI in all specifications of the model, confirming that resource-seeking

motives are still an important part of the story when considering foreign investments in the area.

Turning to the national ‘framework conditions’, ‘rule of law’ – identified by the exiting literature and international organisations as the key obstacles for FDI take-off in the region – is a positive and significant predictor for new investments. Countries with more effective rule of law seem to be more attractive to Italian investors (positive and significant coefficient in all columns).

The final set of regressors control for the degree of economic integration and institutional proximity between sending and receiving country. Pre-existing trade flows positively influence subsequent greenfield investments (column 1) but the direct presence of previous Italian investments is far more important, making the trade coefficient non-significant (see also Beugelsdijk and Mudambi, 2013). The results highlight a significant path-dependency in Italian MNEs location behaviour (supported by the case studies below), with new investment replicating past location choices in order to benefit from existing formal and informal local linkages. As far as the role of EU membership is concerned, the regression analysis suggests a positive and strongly significant association with Italian FDI (Resmini, 2000): being part of the EU makes a significant difference to the attractiveness of the host countries.

[TABLE 4 AROUND HERE]

5. Qualitative analysis: MNEs profiles and insights from the interviews

5.1 MNEs profiles

Finmeccanica

Finmeccanica is a major Italian corporate group active in seven high-technology sectors including Helicopters, Defence and Security Electronics, Aeronautics, Space, Defence Systems, Energy and Transportation. As a holding company, Finmeccanica owns 9 enterprises⁸ operating in these sectors and it also participates into 8 joint ventures⁹

⁸ AgustaWestland, DRS Technologies, Selex ES, Alenia Aermacchi, Oto Melara, WASS, Ansaldo Breda, Ansaldo STS, BredaMenarinibus.

through its controlled companies. According to the 2013 Finmeccanica Group Profile, it is Italy's leading industrial company in high-technology activities and ranks amongst the top ten global players in Aerospace, Defence and Security. As emerged in the interviews to executives, 30.2% of Finmeccanica is owned by the Italian Treasury, which is the largest shareholder of the group. This implies a strong connection between corporate strategies and the international relations between Italy and third countries. This is a very relevant feature of this corporate group, which operates in highly sensitive sectors for Italian strategic interests.

The international presence of Finmeccanica has strongly increased in recent years: it employs about 67,000 people in 230 industrial and technical sites and in 322 commercial and marketing offices in over 50 countries. In terms of sales, Finmeccanica sells its products in nearly 150 nations. From an organizational point of view, it is headquartered in Italy and has a relevant industrial and commercial presence particularly in four markets: Italy, UK, USA and Poland. As far as its economic performance is concerned, revenues in 2012 have reached 17.2 billion Euros, of which 32% is attributed to Defence and Security Electronics, 24% to Helicopters and 17% to Aeronautics.

As highlighted in the interviews with executives, Finmeccanica is a large and very complex corporate group, in terms of typology of sectors and customers, since it has strong ties to both civil and military actors. This implies highly diversified commercial strategies and approaches across geography according to the political, institutional and business profiles of the recipient countries.

Saipem

Saipem is a large multinational company and one of the main world-wide contractors in the oil & gas industry. It operates mainly in energy-related activities in remote areas and deep-water, and it is considered a world leader in the provision of engineering, procurement, project management and construction services. Saipem's core business is design and execution of large-scale offshore and onshore projects with relevant

⁹ NHIndustries, ATR, Eurofighter GmbH, SuperJet International, Telespazio, Thales Alenia Space, MBDA, Ansaldo Energia.

technological competencies in terms of gas monetization and heavy oil exploitation.¹⁰ In terms of ownership structure, Saipem is part of the ENI (Ente Nazionale Idrocarduri) group that currently owns approximately 43% of the company. From an organisational standpoint Saipem is organized in two Business Units: Engineering & Construction and Drilling.

As emphasized during the interview with executives, Saipem is a global contractor with strong local presence in several European countries (with key strategic subsidiaries in France, UK, and in new member states such as Croatia and Romania), but also in emerging areas such as West Africa, North Africa, Central Asia, Middle East, and South East Asia. More recently the company has pursued the vigorous development of production sites in Saudi Arabia and Indonesia, as well as engineering and project management centres in Algeria, Azerbaijan, the United Arab Emirates (UAE) and Canada.

A relevant feature of Saipem is that it operates through a highly decentralized organizational structure in order to take advantage of local strengths and respond to location-specific needs and sustainability issues. The company invests substantially in local facilities, ranging from engineering centres and support yards (for maintenance and storage of construction equipment) to fully-fledged fabrication yards, where sections of major projects are assembled for onshore field construction or offshore installation. It also contributes to local employment as a way to enriching the diversity of Saipem workforce and to recruiting young talents from around the world.

5.2 Analysis of the interviews with executives

The interviews with key executives in both Finmeccanica and Saipem supported quantitative results that market- and resource-seeking investment dominates the strategies of these two Italian MNEs in the area of interest. These companies, substantially different in terms of sector of activity, internal organisation and objectives, offer interesting and

¹⁰ ‘Gas monetisation’ is the development of different typologies of gas from ‘natural resources’ into ‘final products’ ready for the international markets. This process implies the transformation of the product so as to match specific modes of transport (e.g. liquid gas transported via dedicated pipelines). Similar challenges apply to ‘heavy oil exploitation’: heavy crude oil requires prior transformation in order to flow to production wells. These operations and processes require high technological competences.

illustrative examples of location strategies and modalities of crucially important MNEs from the same country of origin in the EU-15 towards EU NMS and NCs.

Mode of Entry

While the regression analysis can only look at greenfield investments (for which systematic data are available), the interviews made it possible to shed some light on alternative modes of entry of MNEs into the host markets. Executives in Finmeccanica highlighted in their interviews that trade connections act as an initial link, but partnerships with local firms are crucially important to enter new markets. Alliances, joint ventures, partnerships and M&As are all components of a diversified strategy to establish a presence in the local markets with new subsidiaries as the very final step (e.g. in the case of Poland by means of a key acquisition). Very similar approaches were highlighted by executives in Saipem. Subsidiaries are used in more sophisticated relational-intensive contexts in the EU-15 (UK and France), and where wider markets are expected to be served by means of stable regional hubs in the EU NMs (Croatia and Romania). Conversely, in ENP-S and ENP-E countries partnerships and joint-ventures with local firms are considered the key modes of entry into the local economies (e.g. Azerbaijan or Egypt). The establishment of local offices normally follows the formation of partnerships in key countries (e.g. Libya with approximately 100 employees, or Algeria with more than 500) as part of a gradual expansion strategy in the foreign market.

Market-seeking operations

Regression results suggested that the presence of Italian MNEs in EU NMs and NCs is highly influenced by the size of national markets. Moreover, the analysis provided indication that government consumption is also important as a pull factor for Italian investment.¹¹ Interviews with Finmeccanica's executives revealed that a large share of its operations in the countries under analysis responds to market-seeking motives. However, the interviews offered a more nuanced picture of this type of FDI driver.

¹¹ The importance of government consumption might be particularly important for the activities related to the defence industry.

When looking at investments in NMs, Finmeccanica interviewees stressed the importance of the acquisition of the Polish firm PZL-Świdnik in 2010 via its fully-owned sister company AgustaWestland. This acquisition followed a 20-year long Finmeccanica's linkages in Poland through several outsourcing contracts established by various companies in the corporate group. Therefore, Finmeccanica had developed connections and direct experience of the Polish market during two decades before entering the national market with an acquisition. PZL-Świdnik was in fact already a supplier of AgustaWestland for several components of helicopters (e.g. fuselage) and, at the time of the acquisition, around 60% of the activity in PZL-Świdnik was connected to Finmeccanica. However, according to the interviewees, the objective of the acquisition was not the in-sourcing of part of the production chain, but rather a step in a wider strategy aimed at gaining a strong and more stable presence not only in the Polish market but also in other central and eastern EU NMs, leveraging Poland as a regional hub.

As far as the Defence sector is concerned, Poland has made substantial investments in the last years and it represents the main market in eastern EU. According to figures of the European Defence Agency, the Defence expenditure of Poland increased by 41.3% between 2005 and 2011, reaching €6,557 million in 2011, and it is followed by that of the Czech Republic which stands at only €1,843 million. Also in relative terms, the Defence expenditure of Poland in 2011 had the largest weight on national GDP among central and eastern EU NMs, amounting to 1.77%. As compared to the Defence expenditure of the EU-15 countries, Poland ranks immediately after the main 'old' members: the UK, Germany, France, Italy, Spain and the Netherlands. This further supports the evidence that the presence of Finmeccanica in Poland is connected to market-seeking strategies in response to both private and government-related demand. In this respect, the preferred mode of entry has entailed the acquisition of a pre-existing domestic firm, in line with the strategies of most MNEs aiming at accessing the markets since the later 1990s (Uhlenbruck, 2004).

With respect to NCs, Finmeccanica has a remarkable interest for local markets in Turkey, Russia and several Northern African countries, such as Libya, Egypt and Algeria. Expansion in all these countries needs a constant institutional support of both the Italian and the host governments, given the strategic national defence importance of some of

Finmeccanica's products. However, within the complex set of institutional and political relationships, the selection of the target countries for Finmeccanica investment is largely driven by market size considerations, and in particular by the importance in the Defence market. This is especially the case for Finmeccanica-owned firms in Turkey and Russia, all with a strong commercial orientation towards the local market.

Market-seeking motives have a very different nature for Saipem given the specific nature of its goods and services (i.e. engineering, procurement, project management and construction services). For Saipem location strategies are closely linked to the location of natural resources that attract its goods and services to selected places. However, meeting local demand is often anticipated and matched by means of appropriately tailored products thanks to constant interactions established with the key potential customers. Such a complex network of contacts and linkages takes place through the subsidiaries located in London and (to a lesser extent) through the NMs regional hubs in Croatia and Romania. Large representative offices in Algeria (ENP-S) and Azerbaijan (ENP-E) pursue similar – although more peripheral and lower-level – functions of 'anticipation and matching of potential demand'.

Efficiency and Resource-seeking operations

From the interviews with Finmeccanica executives it clearly emerged that the main driver for the selection of Poland as a key hub in the NMs was the abundant supply of high quality engineers. Given the significantly lower average wages in Poland vis á vis the other major locations of Finmeccanica (Italy, UK and USA), the conjugation of market (discussed above) and efficiency-seeking motives is immediately apparent. Conversely, the technology and competence gap with the NCs seems to make it impossible to leverage local human capital in any significant form. Access to natural resources does not play a particular role for Finmeccanica given the global and versatile nature of its value chain.

Conversely, Saipem interviewees suggested that the main rationale for the location behaviour of their company is linked to the presence of oil and gas resources and their markets. The time horizon of Saipem operations in a certain country tends to be more long-term the more important the location is in terms of energy markets. In the set of

countries under analysis, Saipem has different strategies for different locations according to their relative importance in terms of resource endowments. Therefore, Saipem operates in places such as the Russian Federation, Algeria, Libya, Egypt, and Azerbaijan as well as other locations including Morocco and Tunisia. Hence, as the interviewees pointed out, the main motivation behind the location strategies of Saipem is not really driven by efficiency- or purely market-oriented considerations, but it is strongly dependent on the presence of natural resources. Once operations in a location are established, Saipem aims at a long-lasting presence, given that natural resources are immobile. Therefore, labour cost, fiscal incentives, local demand or other determinant factors for operations in other sectors tend not to be the primary concern of the strategy of Saipem in the area investigated, although they might have a complementary impact. Indeed, over 75% of total employment in Saipem around the world is represented by personnel from the emerging and developing economies where natural resources are located.

National Framework Conditions, Degree of Integration/Institutional and Geographical Proximity

In line with official policy documents by the the European Commission (2013) and with the results of the quantitative analysis reported above, interviewees at both Finmeccanica and Saipem agreed on the importance of the rule of law and stable and reliable institutions for their operations in the countries of the observed area. Highly convergent were also the views of executives in both MNEs on the very limited influence of geographical proximity for their location strategies. Both companies highlighted the ‘global’ search for investments opportunities that is rarely constrained by spatial distance considerations, although one of the Saipem interviewees pointed to geographical proximity as an additional factor justifying the selection of Croatia for one of their subsidiaries.

What remains remarkably distinctive in the strategies of both MNEs is their approach to the ‘development’ of institutional proximity with their target countries. A noticeable example of the interaction between market-seeking motives and institutional factors (i.e. the importance of bilateral inter-governmental relations and agreements) comes from the case of Finmeccanica in Egypt, where some of the companies part of Finmeccanica

corporate group have experienced a rapid growth in the last few years. Egypt is a strategic country in the region of Middle East and North Africa (MENA), with strong political ties with the US. As mentioned in the profile section, Finmeccanica is also a US 'domestic' group by virtue of its acquisition of the US-based DRS Technologies in 2008. Furthermore, a number of other controlled companies have strong interests in the US market. Therefore, Finmeccanica could benefit synergistically from the strong role played by the US in Egypt and, at the same time, from the bilateral agreements between Italy and Egypt to operate in this country.

Saipem has instead adopted a completely different strategy to develop relationships and integration with its host countries, centred on the importance of local actors in its activities. Saipem interviewees revealed that the success of the presence of the company in a country is directly connected to the intensity of interactions with local social and institutional actors, highlighting the importance of these resources for the final product. This strategy is based on a trust-building process with local agents through partnerships, sub-contracting practices and training of local workforce, leading to the development of a local network of collaborations that supports corporate activities and objectives. Successful operations necessarily require a substantial degree of embeddedness in the local contexts to gain some competitive advantage and secure a long-term presence in the relevant location.

This clearly recalls what has been recently suggested by scholars in terms of network relationships between MNEs and local actors (e.g. Crescenzi et al. 2014; McCann and Mudambi, 2005; Meyer et al. 2011; Iammarino and McCann, 2013), with MNEs embedding their practices in local contexts through their foreign affiliates and subsidiaries according to both corporate objectives and social, economic and institutional features existing in the specific local environments. Furthermore, training and employing local workers allows foreign affiliates to generate and take advantage of new local competitive advantage (e.g. Cantwell, 2009; Phelps and Waley 2004), as well as incorporating local profiles and competences in MNEs activities and objectives. Following this line of argument and balancing it with efficiency-seeking considerations, Saipem's strategy is to maximize the employment of local personnel. Indeed, over 75% of total employment in Saipem around the world is represented by personnel from

emerging and developing countries where natural resources are located. The maximization of what the company defines as “local content” of the activities carried out in foreign markets is one of the main features of Saipem’s business philosophy. The “local content” strategy is aimed at providing considerable social benefits to the host economy, in terms of investment, employment, development of subcontractors and other linkages.

Table 5 summarizes the key evidence emerging from the case studies analysis presenting the material in a comparable fashion with the quantitative regression analysis.

[TABLE 5 AROUND HERE]

6. Conclusions

This paper analysed the location strategies of Italian Multinationals in EU NMs and NCs by means of a mixed-methods approach that allowed us to gain a rather comprehensive picture of both host locations and firm-level characteristics, which jointly determine MNE choices and strategies. The regression analysis assessed the relative importance of alternative country-level features as drivers of location choices, whilst the case studies focused on two of the largest Italian MNEs – Finmeccanica and Saipem – providing relevant insights and complementing the econometric investigation.

The quantitative and qualitative analyses offer a clear and convergent picture of the Italian MNE behaviour in the area. However, the case studies uncovered also significant sectoral and functional differences between the two firms that would have otherwise remained ‘hidden’ in the idiosyncratic components of the regression.

The overall results show that market-seeking strategies are still predominant in driving foreign investments in the EU NMs and NCs. Both private and government-related demand exerts a very relevant influence. In addition, the high sensitivity of MNEs to cost factors (efficiency-seeking) is confirmed by the strong attractive power of low wages and natural resources; the quality of the general business environment and the rule of law are, as expected, key facilitating factors for foreign operations. On the other hand, the predominantly low-medium technology intensity of production FDI that characterise

capital flows between Italy and, particularly, the neighbouring countries, tends to be discouraged by congestion costs: increasing urbanisation has a negative impact on investments.

Among the ‘stylised’ factors that can be extracted from both the quantitative and the qualitative analyses, the ways in which MNEs enter the local markets and develop new institutional and functional proximity with the local economy seem to remain highly diversified. Multinationals’ strategies are influenced by their sector of activity, organisational structure, strategic management of the value chains and business culture. In the case of Finmeccanica inter-governmental networks and bilateral international agreements are leveraged to enter local markets and develop the necessary integration with the target economies. For Saipem, instead, institutional assimilation with local markets is mainly built by means of special arrangements such as local training initiatives and employment of local workforce (‘local content’), and place-specific sustainable activities.

In this context the European Neighbourhood Policy, by strengthening the links between the EU and its neighbourhood in institutional, political, social and economic terms, can conceivably facilitate the development of the ‘framework conditions’ needed for EU MNEs’ investments in the area. More direct interaction with the European Union can also ease institutional reforms and pro-investment changes in the individual neighbouring countries. However, the results presented in this paper suggest that substantial technological upgrading is still necessary in order to attract more sophisticated functions and reduce the current emphasis on purely market- or resource-seeking investments. Thus, policies supporting human capital formation and accumulation, and training (and re-training) of the local labour force are bound to be absolutely critical in the medium-long run.

The results presented in this paper also contribute more generally to the analysis of MNE strategies in developing and emerging countries, an area of research still relatively under-explored from both conceptual and empirical angles. Market and efficiency motives – traditionally considered dominant factors in foreign investment strategies in developing countries – are in fact intertwined with the increasing need to develop an in-depth understanding of the host economies and the establishment of various forms of

institutional and inter-organisational collaborations with local actors. One of the earlier applications of Dunning's OLI paradigm on development issues has been the concept of *investment development path* (IDP) (e.g., Dunning, 1981, 1988, 1993; Dunning and Narula, 1996; Narula, 1996). The main tenet of the IDP is that, as a country develops, the configuration of the OLI advantages facing both MNEs and local actors changes, as do their interactions, eventually reversing even the ambiguous role of 'home' and 'host' economy. Therefore, MNEs' networks and linkages are likely to support the emergence of new patterns of institutional and economic co-evolution in the host locations, with relevant implications for the attraction of further foreign investment and, eventually, the raise of outward foreign investments. The study of these institutional and economic co-evolutionary paths in the context of emerging and developing economies – at both national and subnational levels – is in our agenda for future research.

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Table 1: Italian new foreign operations in the EU NMs and NCs

Country	Number of New Investment Projects (2003-2008)*	%	Outward Direct Investment Positions (US Dollars, Millions) 2012**	%
<i>EU New Member States (NMs)</i>				
Bulgaria	50	9.65	1015.19	1.46
Czech Republic	15	2.9	1986.65	2.86
Estonia	2	0.39	63.69	0.09
Hungary	29	5.6	2683.77	3.87
Latvia	9	1.74	31.22	0.04
Lithuania	2	0.39	0.08	0.00
Malta	1	0.19	693.60	1.00
Poland	41	7.92	15757.23	22.70
Romania	58	11.2	4749.54	6.84
Slovakia	22	4.25	3887.00	5.60
Slovenia	6	1.16	1634.90	2.36
Subtotal	235	45.39	32502.85	46.82
<i>EU Accession and Candidate Countries (ACC)</i>				
Albania	18	3.47	1491.64	2.15
Bosnia and Herzegovina	11	2.12	231.80	0.33
Croatia	17	3.28	1063.57	1.53
Macedonia	2	0.39	175.83	0.25
Montenegro	4	0.77	239.12	0.34
Serbia	21	4.05	1074.12	1.55
Turkey	23	4.44	6435.62	9.27
Subtotal	96	18.52	10711.70	15.43
<i>ENP Southern Countries (ENP-S)</i>				
Algeria	6	1.16	5889.20	8.48
Egypt	10	1.93	5723.42	8.24
Israel	3	0.58	447.40	0.64
Lebanon	5	0.97	56.11	0.08
Libya	5	0.97	278.38	0.40
Morocco	8	1.54	403.55	0.58
Syria	1	0.19	421.96	0.61
Tunisia	17	3.28	997.21	1.44
Subtotal	55	10.62	14217.22	20.48
<i>ENP Eastern Countries (ENP-E)</i>				
Armenia	1	0.19	186.77	0.27
Azerbaijan	4	0.77	175.60	0.25
Belarus	1	0.19	48.81	0.07
Georgia	2	0.39	39.20	0.06
Moldova	3	0.58	122.57	0.18
Ukraine	22	4.25	879.26	1.27
Subtotal	33	6.37	1452.21	2.09
Russia	99	19.11	10536.55	15.18
Total	518	100	69420.53	100.00

* Source: *FDi Markets* data; **Source: IMF data

Table 2: Italian new foreign operations in the EU NMs and NCs by business activity, 2003-08.

<i>Business Activity</i>	<i>n</i>	<i>%</i>
CORE BUSINESS FUNCTIONS	251	48.45
Construction	27	5.21
Manufacturing	220	42.47
Other	4	0.77
SUPPORT BUSINESS FUNCTIONS	267	51.54
Distribution and Logistics	28	5.41
Marketing, sales and after sales servicing	167	32.23
Retail	121	23.36
Sales, Marketing & Support	44	8.49
Other	2	0.38
ICT Services	0	0
Administrative and management functions	68	13.12
Business Services	67	12.93
Other	1	0.19
Engineering and related technical services	2	0.39
R&D	2	0.39
Total	518	100

Table 3: Italian new foreign operations in the EU NMS and NCs by sector, 2003-08.

<i>Sector</i>	<i>n</i>	<i>%</i>
MANUFACTURING	352	67.95
High-Medium Technology	107	20.66
Automotive Components	12	2.32
Automotive OEM	20	3.86
Consumer Electronics	17	3.28
Industrial Machinery, Equipment & Tools	20	3.86
Other	38	7.34
Medium-Low Technology	245	47.3
Building & Construction Materials	16	3.09
Consumer Products	16	3.09
Food & Tobacco	18	3.47
Textiles	138	26.64
Other	57	11.00
SERVICES	137	26.45
High Knowledge-Intensive	86	16.6
Financial Services	71	13.71
Other	15	2.9
Low Knowledge-Intensive	51	9.85
Hotels & Tourism	14	2.7
Real Estate	16	3.09
Transportation	15	2.9
Other	6	1.16
PRIMARY	29	5.6
Total	518	100

Table 4: Poisson regression results

Dep.Var.: Investment count	1	2	3	4
<u>Market-Seeking</u>				
Internal market size	8.392*** (1.513)	7.68*** (1.330)	7.67*** (1.330)	7.68*** (1.329)
Government consumption	0.042*** (0.009)	0.033*** (0.008)	0.033*** (0.008)	0.031*** (0.009)
Agglomeration	-0.034 (0.045)	-0.019 (0.045)	-0.018 (0.044)	-0.017 (0.044)
<u>Efficiency- and Resource-Seeking</u>				
Average wage	-7.62*** (1.61)	-7.13*** (1.42)	-7.12*** (1.41)	-7.12*** (1.41)
Education	-1.02*** (0.341)	-2.49** (0.612)	-2.49** (0.612)	-2.37** (0.601)
Natural resources rents	0.042*** (0.002)	0.032*** (0.003)	0.033*** (0.004)	0.030*** (0.004)
<u>National Framework Conditions</u>				
Rule of law	23.78*** (4.35)	24.49*** (3.73)	25.69*** (3.90)	34.04*** (4.87)
<u>Degree of Integration/Institutional Proximity</u>				
Exports	0.007** (0.0038)	0.002 (0.004)	0.002 (0.004)	0.002 (0.004)
Italian presence		0.017*** (0.002)	0.18*** (0.002)	0.17*** (0.002)
EU membership			1.83** (0.91)	3.60*** (0.99)
Ex-Colony			2.46 (3.93)	2.46 (3.92)
Stock of FDI				0.008*** (0.002)
<u>Geographical Proximity</u>				
Distance	-0.012*** (0.002)	-0.013*** (0.002)	-0.013*** (0.002)	-0.013*** (0.002)
Observations	518	518	518	518
National dummies	Yes	Yes	Yes	Yes
log likelihood	-2948	-2738	-2738	-2737
pseudo R-squared	0.907	0.914	0.914	0.914

Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Table 5: Summary Table of Case Studies

	SAIPEM		FINMECCANICA	
	<i>NMs</i>	<i>ENP</i>	<i>NMs</i>	<i>ENP</i>
<u>Entry mode</u>	Subsidiary (Croatia, Romania)	Partnerships and representative offices (e.g. Algeria, Azerbaijan)	Acquisition (Poland)	Joint-Ventures /Partnerships
<u>Market-Seeking</u>	Hubs for wider regions	0	Government Demand / Hubs for wider regions	+
<u>Efficiency- and Resource-Seeking</u>	0	+ for Natural Resources	+ for Human Capital	0
<u>National Framework Conditions</u>	+	+	+	+
<u>Degree of Integration/Institutional Proximity</u>	EU	Local embeddedness and 'local content'	EU	Bilateral inter- governmental agreements
<u>Geographical Proximity</u>	Relevant for the choice of Croatia	0	0	0

Source: based on interviews with executives

Legend: + Relevant; 0 neutral/not relevant