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Nicolas Papadopoulos, Leila Hamzaoui-Essoussi, Alia El Banna,

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Nation branding for foreign direct investment: an Integrative review and directions for research and strategy

Nicolas Papadopoulos

Sprott School of Business, Carleton University, Ottawa, Canada

Leila Hamzaoui-Essoussi

Telfer School of Management, University of Ottawa, Ottawa, Canada, and

Alia El Banna

University of Bedfordshire Business School, Luton, UK

Abstract

Purpose – This study aims to address a heretofore neglected area in research, nation branding, for the purpose of attracting foreign direct investment (FDI). It compares and contrasts the well-established literature on decision-making and location choice in FDI with studies in the nascent field of nation branding, with a view to developing directions for future research that result from the identification of research gaps at the intersection point between the two areas.

Design/methodology/approach – The study is based on a systematic and integrative review of several streams within the relevant literatures, from the theory of decision-making in FDI to the similarities and differences between advertising, promotion, branding and marketing for investment on the part of nations and sub- or supra-national places.

Findings – Each of the two areas is characterized by lack of consensus as to the principal factors that affect investor and nation decisions and actions, resulting in several knowledge gaps that need to be addressed by new research along the lines suggested in the study.

Research limitations/implications – A large number of avenues for potential future research are identified, from assessing the importance of target country image in location choice to the adverse effects arising from the emphasis on “promotion” rather than “marketing” on the part of places engaged in nation branding efforts.

Practical implications – The study examines several problems that affect the practice of nation branding for FDI and points to alternative approaches that may enhance place marketers’ effectiveness in their efforts to attract foreign capital.

Originality/value – Notwithstanding the global growth of FDI in volume and importance, and the omnipresence of nation branding campaigns to promote exports or attract tourism and investment, there has been virtually no research to date on the core issue, nation branding for FDI. The study uses a strategic perspective that highlights key nation branding issues related to FDI, and FDI issues related to nation branding, and suggests a comprehensive agenda for research in the future.

Keywords Country image, Foreign direct investment, FDI location choice, Nation branding, Investment promotion agencies

Paper type Research paper

Introduction

The issues identified in the title of this article share at least two common characteristics: both are incredibly complex to study in research and understand in practice while, at the same time, being incredibly important to the nations, companies and managers involved in them. Nation branding and foreign direct investment (FDI) also have at least two major differences: on the one hand, FDI has been

studied extensively from numerous perspectives, for a very long time, both conceptually and empirically, and refers to an activity undertaken primarily by individual firms; on the other, nation branding is a new concept with barely two decades of mostly conceptual research and concerns an activity undertaken primarily by governments, trade associations, cross-sectoral industry promotion groups and other non-profit organizations. Taking these similarities and differences together, it is clear that researching and understanding each of nation branding and FDI individually is hard – and, therefore, that studying the two together can be rather challenging. Nonetheless, this is a challenge that must be met, a necessity arising not just from the importance of each subject by itself but, more importantly, in the context of this paper, from the relationship between them.

The unprecedented growth of FDI in global volume and importance has been one of the most noteworthy international business developments of the past quarter century, rising from US\$2.0tn in 1990 to US\$25.0tn as of 2015 (UNCTAD 2014,

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2016). As of the late 2000s, developing economies overtook developed ones as the principal recipients of annual cross-border investment flows, making FDI a true global issue of interest to virtually every country (UNCTAD, 2016). The benefits of foreign capital to both the home and host countries of investors and to the investors themselves are now being widely recognized in government, business, academia and society at large (Festervand, 2011), resulting in an exponential increase in activities aimed at attracting foreign capital and a concomitant global growth in competition for investment (Miskinis and Byrka, 2014).

To enhance their international competitiveness among investors, governments have focused on a variety of approaches including improvements in actual marketplace conditions (e.g., infrastructure), policies for reducing business operating costs, deployment of tax and other incentives and trying to market the investment business more systematically than before through nation branding and other promotional approaches (Young, 2005). Thus, although places have been promoting themselves for various purposes since antiquity (e.g., in tourism), the practice that has come to be known as “nation branding” reflects a far more systematic set of activities than in earlier times. Coupled with national campaigns to promote exports, attract tourists and generally present places to a variety of target markets, activities aimed at attracting FDI gave rise to what van Ham (2001) called “The Rise of the Brand State” and led *The New York Times* to include nation branding as one of the “most notable ideas” of 2005 (Risen, 2005).

Yet, notwithstanding the great and growing interest in nation branding for FDI, both concepts are characterized by considerable research gaps, which, as noted above, make them hard to understand conceptually and to operationalize in practice. For instance, efforts to develop a “universal model” of factors affecting FDI decisions (Bitzenis, 2003) have not been followed through, and Chakrabarti (2001) has noted that there is no consensus on which these factors are and what their impact might be. Likewise, nation branding is often confused with everything from “public diplomacy” and “propaganda” to “promotion” and “marketing”, resulting in a construct that is poorly understood and reflects a very “uneven landscape” at best (Kaneva, 2011).

In a nutshell, therefore, the overriding problem with FDI-related country branding is that too little is known about it. Studies in investment research consider mostly “hard” characteristics that might influence investment decisions (e.g., a country’s tax policy or level of political stability) instead of “soft” perceptual factors such as the images of target countries, a matter that is central to nation branding. Conversely, studies on country images and nation branding from the FDI perspective are rare and tend to focus more on image dimensions than on the characteristics of alternative investment destinations.

In light of the above, rather than attempting to address any of the research gaps in either the nation branding or the FDI literature (an objective that is, to greatly understate the case, well beyond the scope of this article), the goal here is to address the point of intersection between the two fields and to do so within the known limitations of each. The four main sections that follow review key factors in FDI

decision-making provide a background note on nation branding, examine extant research on nation branding from the FDI perspective and consider opportunities and challenges arising from the research examined to this point with a view to discussing implications and directions for future research in this field.

Decision making and location choice in foreign direct investment

The global relaxation of capital controls and the opening to investors of major developing markets, such as China, India and Central and Eastern Europe, has resulted in many more nations than before actively seeking foreign capital and, as noted above, in a change to the geographic distribution of FDI from developed to developing countries over the past two decades. Nevertheless, the available information suggests that investor views may be as variable as the year-to-year fortunes of the countries and regions being considered (Ernst and Young, 2015). The ongoing search for “best FDI locations” by international investors is a quest to which existing studies do not appear to have contributed substantively at either the research or the applied levels. In spite of voluminous research on the subject, the theory of FDI can still be said to be in its infancy (Tamásy and Taylor, 2008), and there is no consensus on what model or theory should be used for the decisions of whether to choose FDI as the mode of expansion (MOE), and if so, what are the determinants of FDI location choice.

Foreign direct investment decisions and determinants of location choice

The FDI literature is replete with well over 20 main theories and models based on such constructs as the international product life cycle (Vernon, 1966), internalization theory (Buckley and Casson, 1976), market imperfections (Hymer, 1976), incremental internationalization (Johanson and Vahlne, 1977), behavioural economics (Hosseini, 2005), the institutional environment (Amal *et al.*, 2010) and, of course, Dunning’s (1977) eclectic paradigm. Valuable as many of these contributions may be individually, however, taken together, they are characterized by broad and critical differences between them and have been critiqued on various grounds (Dunning and Rugman, 1985; Markusen, 2002; Hosseini, 2005).

Furthermore, Ali and Guo (2005) suggest that there are a number of long-term strategic factors that firms consider in their decisions to invest abroad, and empirical findings show that FDI determinants also vary by sector – for instance, the size of the host market may be critical for the chemical and primary metals industries, but not so in consumer goods sectors (Farrell *et al.*, 2004).

Dunning’s (1977) paradigm, based on the OLI model that comprises ownership (O), locational (L), and internalization (I) advantages, has provided a useful framework that has been the most widely used in explaining firms’ investment location choices (Thomas and Grosse, 2001). Nevertheless, a content analysis of advertisements for investment attraction (Wilson and Baack, 2012) indicated that the 24 OLI factors are not necessarily considered important by places engaged in investment promotion. In assessing the strength of

OLI-related arguments found in the advertisements, the highest-rated factor received only a 2.5 mean score on a 1–5 scale, and in total, 16 factors received a mean rating below 2.0, with the lowest at a bottom-of-the-scale score of 1.2, which led the authors to accept that “the mean strength [of each item] is relatively low” (p. 102).

In a seminal article that received the Journal of International Business Studies “2008 Decade Award” and was reprinted in 2009, Dunning (1988) called investment location “the neglected factor” for multinational firms. Indeed, research in this important area is relatively limited, and its findings non-conclusive. For example, location choice has been attributed to such factors as cultural distance (Thomas and Grosse, 2001); the evolution of new markets (Asiedu, 2002); whether the location alternatives are in developing or developed countries (Pan, 2003); market size and labour costs (Bevan and Estrin, 2004); geographic proximity and production efficiencies (Ali and Guo, 2005); the external environment, the firm’s network, and personal characteristics such as age, education and level of experience of the firm’s owners or managers (Sykianakis and Bellas, 2005); and political stability and home government support (Lu *et al.*, 2014). This summary shows that different studies consider different factors as potential FDI determinants, and that many of those that may be important in one setting, in a certain way, or for a certain type of business, are commonly found to be less important in alternative situations.

The differential impact of various influencing factors may also be said to be relevant with regards to special incentives that are commonly provided to attract investors. A distinct characteristic of FDI is the asymmetrical positions of the two main parties involved in the transaction: locations are by definition *place-bound*, whereas in most cases, *companies can choose where to go from among several alternative possibilities*. As a result, to enhance their comparative attractiveness, countries routinely offer such incentives as tax holidays, special grants, advantageous worker compensation and fringe benefits regimes, office space, ISDN connections, lower personal income taxes for expatriate personnel and accounting, consulting, legal, and other business services (PricewaterhouseCoopers, 2000). However, such approaches are relatively easy to replicate by competing jurisdictions, and, therefore, their effectiveness depends largely on how they compare against similar ones elsewhere (Brewer, 1993).

Investment promotion agencies

Investors’ location choices may be influenced directly by the activities of centralized Investment Promotion Agencies (IPAs), which have become a very popular institutional approach for attracting FDI and reflect government recognition of the desirability to engage investors through organized official agencies (Miskinis and Byrka, 2014). As of 2016, the World Association of Investment Promotion Agencies, established in 1995, counted more than 170 member agencies representing over 130 countries (WAIPA, 2016).

The main function of an IPA was traditionally seen as providing information to potential investors, but over time, that view has broadened to include a wider activity portfolio (Wells and Wint, 2000) that may incorporate advertising,

seminars, missions and trade shows, direct one-on-one marketing, facilitation of local visits, matching investors with local partners, helping with project proposal preparation, obtaining permits and approvals and servicing investors whose projects have already become operational.

A key consideration in IPA operations is to determine the stage(s) at which its activities might have a role to play. For instance, according to Harding and Javorcik (2011), an IPA may be involved from the early stages of the decision process (e.g., location selection) all the way to providing services to existing projects. Generally, impersonal techniques such as advertising may be more effective in the early stages by presenting the country as a credible location choice, whereas personal techniques such as visits and feasibility studies may be more effective for companies in later stages of the process, such as when an investor has decided to investigate a short-listed location in detail.

Notwithstanding the relative lack of guidance from theory and research, some IPAs may develop a reasonable understanding of the factors affecting investors’ location decisions for their jurisdiction and direct their efforts towards those factors so as to enhance the potential benefits for the places they represent. Nevertheless, as the above brief summary indicates neither the FDI decision-making process nor the factors affecting location choices are understood well in either research or practice.

Nation branding: promises and challenges

Interest in the “brand” concept has grown during the past two decades, as a variety of factors served to carry it beyond the traditional commercial environment towards hitherto unexpected or unexplored domains, as in the cases, for example, of the “brands” of politicians, public and non-profit organizations, or individuals seeking employment and, of course, nation branding (Anholt, 2003). As “brand” and “place image” are reasonably well understood overall in research, this section only summarizes the base concepts and focuses instead on selected issues that, as will be seen below, are closely related to FDI.

The images of places

Place names, which represent the places’ “brands”, are omnipresent and highly visible, as they are found in everything from street and directional signage to education, popular expressions, consumer experiences, product and brand names and the media (Syrian refugees, German engineering, London Fog clothing, Silicon Valley technology, Mexican standoff, euro zone). As a result, their representations in mental schemata are strengthened over time by inputs that people accumulate in memory through their repeated exposure to them. The attraction to such place brand references for those involved in nation branding lies in the ability of a brand to *represent* the totality of the product to which it is attached, *connect* it to the place of interest and *distinguish* it from others.

“Place” also has a strong emotional component (Papadopoulos *et al.*, 2012), and so its influence often equals or exceeds that of brand name and other extrinsic cues and may even take extreme forms in some cases. For example, disagreeable as it may be in the current environment, the following statement in the lead-up to the First World War by

Thomas Carlyle, the noted Scottish philosopher and satirical writer, could hardly be expected to go unnoticed by those who were exposed to it:

That noble, patient, pious, and solid Germany should be at length welded into a nation, and become Queen of the Continent, instead of vapouring, vain-glorious, gesticulating, quarrelsome, restless, and over-sensitive France, seems to me the hopefulest public fact that has occurred in my time (Scully, 2012: 93).

Thus, it is widely accepted that the image of a place, as triggered in memory by mention of its name, is a strategic issue (Kotler and Gertner, 2002) and can have a major influence on how individuals perceive and evaluate the place itself and everything associated with it including its people and its products. The literature on the effects of place images on buyers, which is commonly referred to as the “country-of-origin” or Product-Country Image (PCI) effect, has been voluminous, and the field is widely acknowledged as the most researched in international marketing (Jaffe and Nebenzahl, 2006; Papadopoulos *et al.*, 2012). Among other findings, and importantly for the present study, it is clear that place images affect industrial buyers (Dzever and Quester, 1999) and investors (Murat and Pirotti, 2010) as much as they do consumers and tourists.

Nation branding

As a new concept, nation branding counts several sources as its “parents”, including country of origin, destination branding in tourism, as well as public diplomacy and national identity (Fan, 2010). Nation branding is increasingly examined by researchers and practitioners because of the potential economic, political and strategic values inherent in developing a favourable country image (Dinnie, 2008). The objective of nation branding is to promote a positive nation image for the country and its people, to establish its brand identity, to enhance the export of its products and to attract tourists and FDI (Anholt, 2003). Overall, what nation branding concerns is the image and reputation that a nation enjoys in the world (Fan, 2010), which in turn can directly influence its attractiveness as a destination and/or producer.

Each country has an image among its international audience(s), which may be positive or negative, diffuse or precise, strong or weak and so on (Fan, 2010). The need for places to actively manage their images through branding, instead of letting them develop organically and risk seeing them evolve towards unwanted directions, has been stressed repeatedly in the literature (e.g., Kotler and Gertner, 2002). Although the branding or marketing of places presents certain unique difficulties that are not encountered often, or as strongly, in the corporate world, such as challenges from multiple stakeholders, diffuse socio-political objectives, and difficult to measure outcomes (Papadopoulos, 2004), it is widely accepted that places can be conceptualized as, and do and should behave, as commercial brands do (Anholt, 2003).

Challenges in nation branding

Nation vs place, promotion vs marketing and image vs reputation
As mentioned in the Introduction, one of the major challenges to nation branding is the terminological confusion that prevails in this field. This is not just a mundane issue of word choice but one that has had major repercussions in the evolution of research and practice in this area and the success,

or lack of same, of applied marketing efforts to enhance place competitiveness. There are three main facets to this problem.

First, there appears to be a considerable lack of understanding about the similarities and differences between the branding of different levels of “place”, such as nations, countries, sub- or supra-national regions (e.g., Italy’s Tuscany versus the 28-member European Union), cities, towns, tourism “destinations”, investment “locations” and so on. The matter is important for two diverse reasons. On the one hand, as all levels are “places”, learning from research at one level can be shared with, and benefit, researchers working on other levels of place – a portability of knowledge that is, unfortunately, all but totally absent in this field. On the other hand, places may compete *across* various levels, which raises competitive intensity and poses significant challenges to the notion that “nation” is the most relevant level in place branding. For example, Ernst and Young (2015) refer to “world cities” in Europe as the “new attractiveness magnet” and identify London, Paris, Berlin, Frankfurt and Munich as the top five cities whose attractiveness transcends that of the countries where they are located.

Second, although the term “branding” seems to have prevailed, this construct is often confused or used interchangeably with other related terms such as promotion, advertising and marketing. A case in point is the study by Wells and Wint (2000), which, though insightful in many ways, portrays this unwarranted interchangeability of relevant terms in its title, “Marketing a country: promotion as a tool for attracting foreign investment” (emphasis added). As promotion is but one out of four main components of the marketing mix, equating the part to the whole or using the two interchangeably portrays the erroneous impression that marketing is nothing but promotion.

Third, a similar level of confusion prevails when considering the terms used to express the nature of the object under study, which is referred to interchangeably as a place’s image, identity, reputation, personality and other similar terms notwithstanding the substantive differences between them. A prime example is evident in the debate among scholars who support the divergent views that brands and images are the same thing (Pritchard and Morgan, 2001), that they are totally different constructs (Jensen and Korneliusson, 2002), that image constitutes the core of a brand (Cai, 2002) or, conversely, that the place brand constitutes the core of the place’s image (Ekinci and Hosany, 2006).

Models in nation branding

As with theory development in FDI, nation branding is already characterized by the existence of several proposed models notwithstanding its brief history in research. These include Anholt’s (2003) Hexagon, with its sides allocated to exports, governance, culture and heritage, people, tourism, and investment and immigration, which was originally developed for countries and was then adjusted for applications to tourism destinations, cities and competitive identities (e.g., Anholt 2007); the country brand indices from such firms as Ernst and Young (2015); Gilmore (2002), whose model emphasizes on a country’s *core competencies*; and Rojas-Méndez (2013), whose “nation brand molecule”, which comprises seven main components that are subdivided into “facets” and then individual “atoms”, appears promising as it

is better grounded in theory and was developed more systematically than others. Notwithstanding their individual strengths and weaknesses, these models have several differences that reflect the lack of consensus as to which factors might best comprise an actionable portrayal of the components of a place brand. The rationale for including a particular factor in one model but not in another is rarely clear, and Kavaratzis (2005), for example, has wondered why the city and nation versions of Anholt's (2003) Hexagon should differ, as both entities are "places".

Nation brand personality

The concept of "brand personality" may not be as new as is commonly thought and has been around, particularly in the context of nations, for at least a century when Bernhardt (1914, p. 57) noted that:

We must not forget that States are personalities endowed with very different human attributes, with a peculiar and often very marked character, and that these subjective qualities are distinct . . .

However, the construct did not rise to prominence in business, and was not addressed systematically, until Aaker's (1997) seminal article that applied the Big Five personality theory from social psychology (Allport, 1938) to commercial brands, followed by d'Astous and Boujbel (2007) and then Rojas-Méndez and Papadopoulos (2012) and others who extended it to nation brands.

It is relevant to note, however, that notwithstanding several insightful contributions on the subject, the construct is more appropriately seen as a useful and novel way of looking at nation *images* than at nation *branding*. In other words, the "personality" perspective is just another (albeit potentially better) way of studying *buyers'* mental image constructs about objects, along the lines of other image studies in extant research (e.g., Murat and Pirotti, 2010), than about what these objects (in this case, nations) might do to capitalize on that image, which is the domain of nation branding seen from the *seller's* perspective.

Nation branding for investment attraction

Even though other facets of nation branding, in such areas as tourism, exports, and public diplomacy, have been addressed at least to some extent in existing studies, as noted in the Introduction, this is not the case with the intersection between nation branding and FDI, where research is scant.

Marketing vs promotion for foreign direct investment

Most of the existing studies have focused on individual aspects of marketing, and only a few have discussed nation branding or marketing holistically. One example is a series of studies on advertising for FDI, of which the first (Wilson and Baack, 2012) carried out a content analysis of advertisements in relation to factors in Dunning's (1977) OLI framework, as discussed above, and the next two were based on a survey of managers to examine their reactions to a subset of the same advertisements in relation to the OLI factors (Wilson *et al.*, 2014) and the level of creativity in the ads (Baack *et al.*, 2016). Similarly, Wells and Wint (2000) discussed only organizational structures and only for place promotion, and a small handful of other studies also confirmed that promotion can be useful in attracting FDI

(Proksch, 2004). Zeugner-Roth and Žabkar (2015) included a limited set of investment-related questions but asked them of consumers rather than business managers. In summary, although all of these studies are highly useful and directly related to FDI, they are limited in their examination of only one component of marketing.

In this context, it is worth noting that IPAs themselves were given a "middle name" that emphasizes the *promotion* component instead of the complete marketing mix. This signals the rather limited perception of how the work of such agencies was conceptualized from the outset and may not be in line with the requirements of the field as it has evolved over time.

"Soft" vs "hard" factors in investment decisions

A number of seminal works, including, for example, Sarasvathy's (2001), focus on entrepreneurial behaviour in the context of causation and effectuation, and Kunda's (1990) emphasis on motivated reasoning supports the notion that business decisions are not necessarily as "coldly logical" or "rational" as was commonly thought. Contemporary research in psychology suggests strongly the primacy of emotion over cognition in human behaviour and suggests that the former influences the latter more than the other way around, leading Fineman (2004: 719) to note the significance of these findings to business and other organizations and stress that emotion is "the missing ingredient in our understanding of organizational life". Yet, as noted above, FDI research typically focuses on "hard" factors, ranging from comparative place advantages and physical endowments to interest rates and trade barriers, whereas "soft" factors related to perceptions and images are mentioned rarely, if at all.

When considering alternative locations, the limited available research suggests that foreign investors consider a more holistic representation of prospective places whose individual components are subsumed into a dynamic brand (Metaxas, 2010). For instance, there is evidence that the image of potential target countries may even affect an investor's ability to recruit personnel for international expatriate assignments and, by extension, also affect the perceived desirability of the alternatives being considered by the investing firm (de Eccher and Duarte, 2016). Among the few exceptions that have considered such factors within the FDI literature, Galan *et al.* (2007) included a country's reputation and image as one of four factors that influence location decisions (together with technology, human resources and prior experience). Similarly, the few available studies on the place marketing side confirm that FDI decisions are affected by investors' image of potential locations (Thomas and Grosse, 2001) and the target countries' reputations (Fan, 2010).

Implications and directions for future research

Considering that the "new capital" for countries in the hyper-competitive contemporary environment is their image and how they manage it as part of their brand (Johnson, 2014), and that competition, as noted by Hamelin *et al.* (2011, p. 242), is a "harsh task-master", it is not surprising that countries have rushed to "brand" themselves in a number of areas, including FDI. However, as can be seen from the

preceding overview, research on both the investment and nation branding sides does not appear to have been very helpful so far, characterized as it is by contradictions, lack of consensus and many important issues that have not yet been addressed. This also contributes to weaknesses in practice, where the emphasis is more on “promotion” than “marketing”, and the reliance on the more visible parts of marketing, such as advertising, instead of the discipline’s core construct of “exchange” (Bagozzi, 1975), leads to fragmented efforts that are less effective than they might be (Fan, 2006).

In considering “implications and future directions” for this section, it could be relatively easy to simply refer to the weaknesses and problem areas identified in earlier sections and designate each as representing a research gap and/or managerial issue that needs to be addressed. However, by leveraging the collective knowledge of the studies that were examined, the preceding integrative review makes it possible to identify several specific focal points where future effort might be best expended. The paragraphs below are grouped into two main sub-sections which focus on the two principal actors in the FDI dyad: the investors who seek locations and the locations that seek investors.

Understanding investors

In discussing “global brands”, Hollis (2008, p. 23) was careful to stress that the concept does not mean using a homogeneous approach for all markets, as “one size does not fit all”. This observation is especially important in nation branding, as, unlike commercial brands which by choosing a “global” approach are able to transcend their origins, place brands are by necessity tied to them.

Foreign direct investment vs other modes of expansion

Understanding FDI at the most basic level necessitates addressing a misconception which affects the thinking and strategies of investment promotion worldwide and, in some instances, of researchers as well: that FDI decision-making is a matter of *choosing among alternative locations*, rather than also, and in many cases primarily, being one of *choosing among alternative modes of expansion* (MOE). The latter decision has been viewed traditionally as critically important to international performance (Kim and Hwang, 1992) and broadens the base question from “where to go” to “how and where to go”, which is much more complex than just ascertaining a market’s suitability for investment: Should the firm invest abroad or at home? Expand existing facilities or establish new ones? If the target is market A, should the investment be in A or should that market be serviced by a nearby facility in Country B? Or in Country C, which lies further afield but offers advantages that reduce the relevance of geography?

The matter of MOE choice is closely related to the firm’s motivation for going abroad. The most common reasons cited in the literature reviewed above include access to foreign markets, new technology and human, natural and/or capital resources, as well as enabling the firm to build flexibility advantages by leveraging inter-country differences in political, taxation, infrastructure and other areas. In light of this variability in motivation, it logically follows that FDI may or may not be considered as an MOE option. For instance, mining firms needing access to natural resources have to invest

(whether directly or by acquiring, joint venturing with or licensing local firms) wherever such resources are available. By contrast, consumer goods companies have a broader spectrum of options available, ranging from indirect exports via home-based distributors to fully owned greenfield investment. Thus, working to attract FDI typically must, but rarely does, *target two different types of markets*, each with very distinct needs and decision-making processes. One comprises the firms that “must invest”, and the other those that have a broader MOE choice. The question in the latter case is not only where but also how, and firms in this group often adopt sequential entry modes that begin with exports and gradually move to investment if the market warrants it (Knight and Liesch, 2016).

Therefore, although the first market is limited to the population of resource seekers, the second often includes large numbers of *companies that already operate in the country in question with some non-investment mode*. In turn, this means that a critical target for promotion efforts must be companies that already bring their products into the country, whereas the target for research must be to study how exactly do firms of these two types differ in terms of their decision-making practices, the factors that influence their expansion and location choices and the cross-market relationships that may influence whether an investor, to continue with the above example, opts to invest in Country A or service it from other near (B) or far (C) countries.

Stages in the foreign direct investment decision-making process

The stages of decision-making for FDI have been studied extensively and clearly suggest that the factors at play vary greatly between the early and late steps of the process (e.g., Jacobsen, 2009). Therefore, effective marketing for investment must necessarily also vary between the early versus later parts in decision-making, when, for example, awareness-focused versus incentives-focused marketing, respectively, may be more relevant. In a nutshell, as the criteria used by investors in *creating a location shortlist* are different from those used to *select the final location* from it, so must the marketing effort addressed to these points differ. Yet, although the decision-making process has been studied in general, this cannot be said for the nation branding perspective of it. Future research, therefore, may usefully address a broad range of questions in this area, from descriptive (e.g., what do countries do at which stage of the decision-making process) to theoretical (e.g., how do specific FDI determinants affect what countries do at which stage), which may help to improve our understanding of how and why the process works and how it may be improved.

Sectoral variations in foreign direct investment behaviour

Although many of the determinants examined in the FDI literature may be applicable to practically any firm, research suggests additional or different factors for consideration when examining FDI decisions by sector (Ramasamy and Yeung, 2010). Concerning technology-intensive firms (both producers and users), for example, Malecki (1991) noted early on that they are shifting their attention from owned production facilities towards more flexible models centred around business networks – a finding also supported by later

studies (e.g., Laanti *et al.*, 2007). Importantly, the available evidence suggests that sector-based targeting leads to significantly higher FDI inflows (Harding and Javorcik, 2011). Yet, research in this area is very limited and neither traditional location research nor contemporary studies in nation branding can adequately account for the differential behaviour of firms in various different sectors, including but not limited to the technology (e.g., Baum *et al.*, 2011) and services sectors (e.g., Ekeledo and Sivakumar, 1998), which appear to have received considerably more attention than others. The largely un-differentiated, “mass market” approach by IPAs (El Banna *et al.*, 2016) and the relative lack of research in this area both call for new studies that would examine FDI-related nation branding from a sector-specific as well as cross-sectoral perspective.

Variations by mode of investment

A noteworthy additional element in differentiating across different types of FDI is the distinction between fully owned, international joint venture (IJV), and merger and acquisition (M&A) investments (e.g., Raff *et al.*, 2009). The matter is important both generally and specifically with regards to nation branding, since research shows that offshoring production and the investment mode involved affect brand equity (Hamzaoui-Essoussi *et al.*, 2011). Furthermore, in M&As many investors decide on *which company* to merge with or acquire *regardless of where it is located*. As one executive commented in one of the few studies that have dealt with this issue (Papadopoulos *et al.*, 1997), “we liked the company – the country came as a package deal”. This suggests yet another potential avenue for future research into a class of investors who represent a substantive market segment than needs to be targeted, and marketed to, differently than others. In this case, FDI promotion and incentives would be more effective if focused on the quality of domestic firms that may be available for acquisition, rather than, or at least in addition to, the country’s investment climate in general.

Investor country of origin

Research into nationality-related differences in investor decisions is limited but has produced relatively consistent results to the effect that such differences exist and affect behaviour. One such effect appears to be an issue of “critical mass”; for example, Grosse and Treviño (1996) showed that the level of *exports from the investors’ home country* to the US has a significant positive influence on the *total stock of investment* there. This buttresses a point made earlier, that the market servicing mode may be a sequential process and, therefore, that current exporters are good targets for potential future investments. In another seminal study, Kogut and Singh (1988) reported that the investor’s origin culture makes a significant difference to whether the investments were greenfield or made by M&A or IJV. Papadopoulos *et al.* (1997) also found significant differences between Japanese and European investors in Canada, and so did Wang *et al.* (2009) between Western and Asian investors in China and Holtbrügge and Kreppel (2010) among investors from the four BRIC countries. Interestingly, the 2016 World Investment Report (UNCTAD, 2016) is dedicated expressly to the matter of investor nationality.

On the practice side, this calls for more careful consideration of investor origins on the part of IPAs, as market segmentation, which in most cases is a given in commercial marketing but does not appear to be a “strong suit” of government-driven nation branding for FDI, may be more effective than the current, largely undifferentiated approach that is reflected in the websites and magazine advertising that comprise primary FDI promotion tools. On the research side, although studies such as those cited here have looked into investors’ country-of-origin in order to ascertain behavioural differences in general, it would seem that a focus specifically on *differential place images* among investors from various countries, which lie at the core of the “brands” of target locations, would constitute a fruitful avenue for future research.

“Location choice” versus “international market selection”

The issues in the title of this subsection appear to have been researched completely independently from each other, even though their goal is common: “Identifying suitable target locations for foreign operations” (Papadopoulos *et al.*, 2011). This may be due to the emphasis of international *market selection* (IMS) on the notion of “market”, which has led that stream to focus almost exclusively on exports, whereas FDI by definition does not deal with exports and may be driven not only by market but also by labour, resource, political and/or other considerations. Regardless of the cause, it appears that researchers in these fields have not felt the need to consult and/or build on each other’s studies, even though the literature indicates commonalities between them (e.g., market potential has been identified as one of the most important criteria in both IMS and FDI research; Wood and Robertson, 2000; Rothaermel *et al.*, 2006). Thus, future research that considers the intersection between the fields, by, for example, examining how firms handle the “target selection” process for both their exports and international investments, could be highly useful.

“Soft” and “hard” factors in foreign direct investment decisions

Except for occasional minor or passim references and a very limited literature, FDI research has not, as noted earlier, dealt with “soft” factors that may influence investment decisions. Yet, some studies indicate that such factors can be important. For example, Cechella’s (2010) research on Brazilian investment in Portugal identified both typical “hard” location factors (e.g., tax incentives) as well as soft ones, such as cultural affinity, as having an influence in location choice. Further, Jacobsen (2009) suggests that, in the process of short-listing potential investment locations and then selecting a target among them, cognitive factors tend to predominate in the latter stages but largely affect-driven factors when the initial “awareness set” is developed early on. In this context, it might also be noted that, to the extent that there may be interaction effects between nation branding campaigns undertaken by the same country for different purposes (e.g., tourism vs investment attraction), introducing affective factors in nation branding for FDI may also create positive spillover effects for other target markets (e.g., from investors to tourists) while also opening the door for the reverse effect (e.g., greater exposure of investors to affect in FDI promotion may help make them more amenable to affect-driven promotion in tourism).

Considering the growing recognition of the importance of affect in marketing and society at large, and especially considering the dearth of affect-oriented research in FDI, this is one issue that “cries out” more than most for additional studies in the future.

Place marketing for foreign direct investment

“Advertising” vs “promotion” vs “branding” vs “marketing”

A theme that is repeated in much of the research and practice of “nation branding” both in general and specifically in relation to FDI is the ongoing focus on components of marketing instead of marketing as a whole, whose value as a multi-faceted construct has long been recognized in business. Simply put, neither advertising and promotion nor branding are “marketing” as such – they are just parts of it. As noted above, the *exchange* construct is at the core of marketing and helps to encapsulate all of the elements of the marketing mix. Although the present study is as guilty as any other in using “nation branding” as the principal construct, in this case, this was done for convenience, as this term has come to be accepted as the most widely used. Nevertheless, the continuing tendency to intermix the various terms within each of the above dimensions does little but to impede the advancement of knowledge in research and the effectiveness of applied strategies. If researchers and practitioners could only capitalize on the extant know-how within each of the silos represented by these simple yet important variations in terminology, both would be more effective at what they do – and it is this area that, as noted for the “soft vs hard” issue above, “cries out” just as loud for new research that will attempt to first distinguish between the various terms and then integrate them.

“Products” and “prices” in nation branding

Nation branding for FDI is most typically handled by government organizations which try to shape investment environments and enhance locational attractiveness. However, it is also governments that just as typically are less well-versed in marketing issues than private sector organizations. Addressing a nation’s image means addressing its own behaviour (Fan, 2006), and as that is driven by the emphasis on “promotion” rather than “marketing”, as above, it is here that efforts to attract FDI fall short of expectations. For instance, in addition to just “branding” (not to mention just “promotion”) for investment attraction, a country needs to, among others, tend to infrastructure, developing a skilled workforce, instituting favourable tax policies, reducing bureaucratic red tape and generally crafting a positive macro climate to ensure appropriate “prices” (both monetary and psychic) for its complete investment offering and therefore reasonable rates of return that will be palatable to investors (Szondi, 2007). Yet, achieving the objective of ensuring a suitable “product” as the base for investment attraction is fraught with difficulties, not the least of which are the multiplicity and frequent divergence of objectives among such government departments as finance, industry and labour and the frequent changes in objectives and policies that are brought about when a new governing party comes to power and often dismantles what its predecessors had

built in favour of its own preferred approaches. An additional avenue for research, therefore, must be in the area of current practices and future directions for intra-governmental coordination aiming to supply the proper “product” base for any nation branding or marketing initiatives that can be built upon it.

The “place vs nation” and “branding vs marketing” conundrum

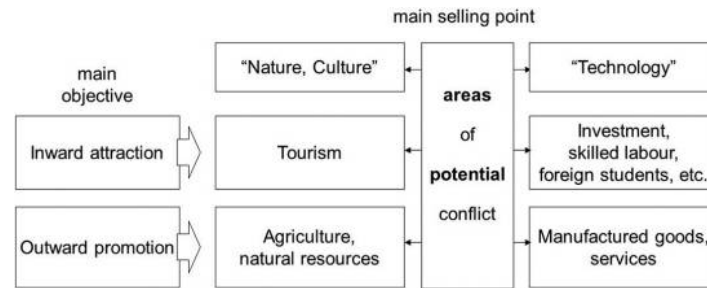
The proliferation of high-visibility campaigns to promote exports or attract factors of development, from “100 per cent Colombian Coffee” and “I Love NY” to Germany’s “Deutschland Europa” and the UK’s “Hit the ground running” programs, points to the realization that each place has multiple images and that trying to integrate them into a coherent set of systematic activities is very hard and more often than not has led to failure (e.g., Jaffe and Nebenzahl, 2006). At the most general level, place (any place, not just “nation”) marketing (not just “branding”) is being practiced more episodically rather than systematically by various different players (e.g., firms, trade groups, governments) who rarely “talk” to each other and inconsistently across sectors each of which has its own distinct objectives (e.g., tourism, exports, and investment), most often resulting in uncoordinated and frequently contradictory place brand images (Fan, 2006). A key reason behind this problem is the relative incongruity between the objectives of “export promotion” and “inward attraction” that characterize various sectors and lead them to adopt widely differing unique selling propositions (USP), as portrayed in Figure 1 below (Papadopoulos *et al.*, 2013). Although several past studies have tried to address this issue, including, for example, the Hexagon and Nation Brand Molecule models mentioned above, it is clear that the problem is far from having been addressed and comprises a third issue that “cries out” for more research.

Choice of promotional tools

Nations typically use a combination of image building techniques with the objective of improving their image as a place to invest in. Some of the most common techniques include advertising, websites (El Banna *et al.*, 2016) and exhibitions and missions (Wells and Wint, 2000). However, the effectiveness of such tools, both comparatively and individually, is not known, and efforts to date are often criticized as being less strategic and systematic as they might be. The World Bank (2012), for example, has singled out some countries that appear to have an effective online presence for investment promotion (e.g., Taiwan, Tunisia, Germany) but has also concluded that many other countries while having a robust presence in such other areas as tourism have much left to be done in the case of FDI. The challenges that countries face can be addressed by new studies that will examine the various available promotional tools either individually (as in the case of the Baack *et al.* (2016) research on advertising) or comparatively to assess their relative usefulness and effectiveness.

The role of investment promotion agencies

As noted above, IPAs have come to be a critical institution in national efforts to attract investment (Ecorys, 2013). However, successful as some of them appear to be, the work of IPAs faces at least three major challenges which were touched

Figure 1 The conundrum of coordinated place marketing

on above and require new research. First, the agencies' propensity to engage in undifferentiated promotion, which means that the many segmentation bases that were discussed above are not being leveraged for greater effectiveness in investment promotion (Miskinis and Byrka (2014)). Second, by their very mandate, IPAs focus more on "promotion" than comprehensive marketing (World Bank, 2012). Third, they generally have little direct influence on other government agencies, which results in a "disconnect" between the "promotion" they are trying to do while having little or no say on the design of the "product" they are asked to promote. A representative case of the latter, which serves to illustrate the severe challenges faced by most IPAs, occurred recently in relation to the production of a movie in the "Jason Bourne" franchise. The movie is set mostly in Athens during the recent Greek financial crisis, but was filmed in Santa Cruz de Tenerife (capital of the Canary Islands), with appropriate "Hellenization" of its streets and public squares to represent Greek equivalents, because "the film's makers were put off by red tape and a lack of tax breaks" notwithstanding the efforts of the country's IPA to patch things up (Pancevski, 2015).

The role of local market characteristics and incentives

As noted earlier, comparative analyses of investment location characteristics show that different studies have had different findings as to which characteristics are more important than others (e.g., labour costs were significant in Wheeler and Mody (1992) but not in Thomas and Grosse (2001)). Likewise, several studies have suggested that high incentives and low business costs do not necessarily work as effectively as is commonly thought, and that different types of incentives and location characteristics are likely to play different roles at different stages of the decision-making process (Faeth, 2009; Ecorys, 2013). Therefore, more research is needed both within the FDI stream to ascertain the relative importance of investment factors and incentives and at the FDI to nation branding intersection so as to help inform branding campaigns as to the best "arguments" to make towards different types of investors (Wilson and Baack, 2012).

Level of development

It goes without saying that developed and developing countries have different needs and behave differently when engaging in nation branding, but the distinction must be noted for the sake of completeness in this overview of suggestions for new research. As Fan (2010) notes, the advantages of many developing nations are limited to one or a few sectors, which may be both disadvantageous (limited attractiveness range) and advantageous (ability to focus), whereas developed

countries typically are strong across a broader set of sectors, with the reverse advantages and disadvantages. Papadopoulos (2004) has also stressed the many differences between developed and developing countries in the context of nation branding, but only conceptually and not specifically for FDI. Yet, as in several other areas, and with very few exceptions (Wilson and Baack, 2012), the distinctions between countries at different stages of development have not yet been explored in the literature that deals with nation branding for FDI.

Countries, cities and regions

An important characteristic that was noted in the preceding review of the literature is the *level* of the places that work to attract foreign investment, which may vary from cities, towns, states or provinces and other regions within countries to nations and multi-country trade blocs or other groupings. As suggested by the Ernst and Young (2015) study mentioned earlier, one may, for example, think of "Germany" as much as of "Frankfurt" or "Munich" when considering investment locations, and various different levels of places approach the investment promotion differently. This is also illustrated by the intra-country spatial distribution of foreign investments, which typically tend to cluster in particular areas; for instance, Villaverde and Maza (2012) found that Madrid and Catalonia accounted for the bulk of FDI stock in Spain from amongst 17 regions examined.

A special case of within-country locations is the Foreign Trade Zones (FTZ) or Special Economic Zones (SEZ) that are characterized by a special legal, tax and administrative regime which is clearly distinct from that of the country in which they are located. Such zones now dot the globe, with more than 130 countries having at least one and a global total of over 3,500 zones of all kinds, many of which offer better infrastructure and facilities than their countries' surrounding "general" territory (Papadopoulos and Malhotra, 2007; WEPZA 2012). As illustrated by an advertisement from South Korea (The Economist, 2006), which urges companies to "Invest in Korea's Free Economic Zone" because of its strategic location in Northeast Asia, such zones tend to emphasize not so much the country where they are located but their dual function as:

- distinct from the country; and
- potential springboard to neighbouring economies.

Taking the above comments together, places of various kinds may compete against one another at the intra-country level in order to attract investment not only internationally but also from within their own country (Capik, 2007), thus bringing the "domestic" component into the "foreign"

direct investment discussion. Yet, although research examining various levels individually is developing, at least to an extent, studies on cross-level competitive and other issues in branding for FDI are virtually non-existent, pointing to the potential of an entirely new sub-stream of research that might incorporate “locational” research from FDI, level-specific and comparative studies on various types of “place” from the place marketing literature and FTZ/SEZ insights from the focused literature that examines those zones.

Personality, image and temporal variations

As noted earlier, studies on nation brand personality, which uses the anthropomorphism metaphor to investigate how countries are understood, is very limited (d’Astous and Boujbel, 2007; Rojas-Méndez, 2013). This metaphor is important, since greater congruity between a buyer’s and a nation’s personalities brings about more positive reactions by the former to the latter (Rojas-Méndez *et al.*, 2015). Nevertheless, of key interest here is not so much which method might be used to assess a country’s image, but more so the realization that place images are subject to both long-term and short-term shifts, which may result in a place position that is noticeably stronger or weaker over time (e.g., Ferguson, 2014) and even on a year-to-year basis (e.g., Ernst and Young, 2015). Closely related to this is the need on the part of countries to see the nation branding (or, better, place marketing) effort as a continuous instead of *ad hoc* effort. As has been typical of many marketing campaigns in the financially constrained non-profit sector, IPAs and other government organizations tend to engage in aggressive promotion when their budgets permit and withdraw or significantly curtail them when they do not.

Although the implication for practitioners would be to strive for greater continuity in their efforts, even at the cost of limiting a campaign today to save funds for launching another tomorrow, the implication for research is that we simply do not know what is the best way to measure place images, how and why these might vary over time in the case of FDI marketing and what one might do to address these variations.

Conclusion and the way forward

As illustrated in various ways in the preceding sections, many different factors affect investor decisions and much activity is observed in the nation branding field, but we do not know which of these factors are more important than others; we do not know which place marketing approaches work better in what contexts; and we seem to be not anywhere near to a reasonably comprehensive understanding of the intersection between the well-established (even if in some ways lacking) literature on FDI and the much newer field of nation branding, which can readily be said to still be in its infancy.

At the end of the day, successful “branding”, or “promotion”, or “advertising”, is more the result of true marketing know-how and hard work than one of developing slogans and nice-looking advertisements. For instance, campaigns based on such slogans as “Building Tomorrow For You”, “Land of Progress” or “We take you to the markets that matter” may appeal to some audiences but often do not match the countries’ actual characteristics and may contrast

investors’ perceptions of them, thus being less credible and even alienating other audiences that may have different interests or beliefs. In this light, the intent and hope of this study has been to highlight, even if only in broad strokes, the relevant issues and to suggest several areas and directions for future research, which, taken together, portray a virtual cornucopia of exciting possibilities for those scholars who have an interest in FDI, nation branding (place marketing), or, hopefully, both.

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About the authors

Dr Nicolas Papadopoulos is Chancellor’s Professor of Marketing and International Business at the Sprott School of Business of Carleton University in Ottawa, Canada. His research focuses on international strategy and buyer responses to it and includes international expansion strategy, place images and branding, and international market systems. He has over 300 publications of various kinds, including recent articles in such journals as *International Business Review*, *Africa Journal of Management*, *Journal of Product and Brand Management*, *Journal of Travel Research*, *Journal of International Marketing* and *International Marketing Review*. He is a member of the Senior Advisory Board or Editorial Review Board of nine journals. Nicolas Papadopoulos is the corresponding author and can be contacted at: nicolas.papadopoulos@carleton.ca

Dr Leila Hamzaoui-Essoussi is an Associate Professor of International Marketing and Consumer Behaviour at the Telfer School of Management, University of Ottawa. She is the Director of the MSc in Management Program. Her

research focuses on brand management and the effects of a product's country of origin on consumer behaviour in industrialized and emerging countries. She is especially interested in international branding issues, place branding and international market selection. Her work was published in such journals as *Journal of Business Research*, *European Journal of Marketing*, *International Marketing Review* and *Journal of Consumer Marketing*. She has made numerous conference presentations and serves frequently as *ad hoc* reviewer for many journals.

Dr Alia El Banna is a former Post-Doctoral Fellow at the Sprott School of Business, Carleton University, and was recently appointed as a Senior Lecturer in marketing at the University of Bedfordshire. She has published on such topics as place image, ethnocentrism and consumer mobility and has a strong interest in research on the images of countries and how these may affect various types of internal and external others, ranging from domestic and foreign consumers to export promotion and the attraction of tourists, investors and skilled workers.

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