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THE TERRITORIAL EMBEDMENT OF FOREIGN MULTINATIONAL COMPANIES. CONCEPTUAL FRAMEWORK AND EMPIRICAL EVIDENCE

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SUMMARY

This paper investigates the territorialisation of foreign direct investment (FDI) decisions in a given regional economy. More specifically, it introduces a distinction between the *anchorage* of the foreign affiliate company to the host local system and its *territorial embedment*. In the perspective of this study, anchorage and embedment correspond to the initial and final conditions of a process of territorialisation that starts with a low intensity firm-territory nexus and ends with an intense and complex one. The former is the result of the investment decision *tout court*. The latter represents the highest level of integration between the firm and its external environment, when it becomes both a recognized component of the local territorial capital and an active actor of local development processes. In this paper the results of interviews with a selection of six foreign-owned affiliates with a lasting presence in Piedmont (Italy) have been used in order to investigate the effects of territorial embedment processes in terms of both the stability and the quality of the localisation of FDIs.

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1 Introduction[2]

A recognized effect of the globalization consists in the augmented interconnectivity among actors and places worldwide. The planet is increasing crossed by multiple flows exchanging information, knowledge, money, goods and individuals. The result is a "wired" world (Martin, 1977) inhabited by a "network" society (Castells, 1996 and 2002), where the impediments generated by physical distance are easily overcome via technological and organizational innovations. Following Sassen (2000) we realize that "the master images in the currently dominant account about economic globalization emphasize hyper-mobility, global communications, the neutralization of place and distance" (p. 79).

Yet, global networks are never completely footloose. Network constituent links always have an origin and a destination. They "move" from a starting node to an ending one that must be placed somewhere. As noticed by Phelps and Waley (2004), the process of world integration, in which multinational enterprises do play a significant orchestrating role, is a contradictory practice involving both a space of flows and a space of places.

Focusing on industrial networks, "developing categories such as place and production process does not negate the centrality of hyper-mobility and power. Rather, it foregrounds the fact that many of the resources necessary for global economic activities are not hyper-mobile and are, indeed, deeply embedded in place" (Sassen, 2000, p.79).

Multinational companies (MNCs), in fact, resort to tangible foreign direct investment (FDI) operations - such as the acquisition of a existing company, the establishment of a new enterprise or the formation of a joint venture - to get a direct access on remote markets and resources (labour, know-how, competencies, infrastructures, etc.) . Thus, MNCs need local anchorages to expand and develop their activities (Colletis and Pecqueur, 1999). Also, the newly created corporate units come to function as gateways or linking nodes between the host foreign economy and the MNC's global network.

Sassen has also stressed the fact that, although there is a tendency to take the existence of a global economic system as a function of the power of transnational corporations (TNCs), the capabilities for global operation, coordination and control contained in the power of TNCs need to be produced (and reproduced) via specific practices, reflecting place and production process conditions. To say it differently, economic globalization

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and MNCs exist via concrete, fixed, localized processes. Giuseppe Dematteis and Governa (2005) have developed this concept further, claiming that any human actions (investment decision included) do not exist in an autonomous sphere, distinct and detached from the materiality of places.

Thus, a given MNC and its foreign host territories are interdependent. On the one hand the MNC makes use of resources it accesses locally. On the other hand the host territories enjoy direct and direct externalities by the MNC and its affiliates. Yet the outcome of this interdependence cannot be given for granted: depending on the characteristics and evolution of the firm-territory nexus, local development, economic growth and predatory attitudes are all possible outcomes.

The impact of inward investment on the host economy is a quite controversial topic.

In some cases FDIs have demonstrated to be important levers of regional competitiveness, providing the host system with wealth, employment and knowledge, and engendering multiple positive externalities.

Following Dunning (1994), the impact of inward investment on the host economy includes many different aspects: from the balance of payments to employment, from capital stock and resources to rent shifting, from welfare to dependence. “Success in attracting FDI can potentially release many local development benefits. As well as the direct additional employment and output in the foreign affiliates themselves, there are multiplier effects associated with local purchasing of materials and services and local spending of wages and salaries and a series of wider effects including technology transfer, upgrading the efficiency of local suppliers, competitors and customers, contributions to local infrastructure, improved labour force skills and so on” (Potter, 2001, p.1). As a consequence, “the attraction of FDI is one of the principal economic development activities of regional governments and development agencies, which make extensive use of marketing and promotion and investment incentives to influence foreign investor location decisions” (Potter, 2001, p.1).

In other cases foreign investors have often been strongly criticised for having relatively few spin-off benefits for local businesses or the local competitive environment, because of the ‘truncated’ or ‘branch plant’ nature of much of the investment attracted. Foreign MNCs are also accused to have reduced the opportunities for domestic agglomerative economies by confining their linkages to foreign suppliers and industrial customers (Dunning, 1998; Bellak, 2004). In addition, since they are far more rapid than domestic firms in modifying the geography of their investments, they are more likely to adopting sudden exit strategies (Barba Navaretti and Venables, 2004). In particular, the shutdowns of foreign MNCs’ plant, although they are not necessarily more frequent than domestic ones, are accused for (Phelps and Waley, 2004; Bernard and Jensen,

2007): i) dramatically downsizing the industry productivity; ii) a relevant share of local gross job destruction; iii) discontinuities in industrial restructuring. This fact, together with empirical evidences of predatory behaviours by transnational corporations (TNCs) worldwide, have fed the perception of foreign multinationals (and, in turn, their affiliates) as footloose actors (Görg and Strobl, 2003), menacing local resources, identity and coherence (Phelps and Waley, 2004).
In the paper the concept of MNCs' territorial embedding has thus been proposed as a relevant concept, providing significant information to explain stable and lasting presence in a given regional economy of proactive affiliates from multinational companies. More specifically, in section 2 the 'firm-territory nexus' is introduced in order to explicate the complex relationships among firms, territories and industrial systems, in turn embedded in the overall macro dimensions of governance systems. Section 3 focuses on anchoring and embedding processes by foreign multinational companies. In section 4 qualitative data on foreign-owned companies in Piedmont region (Italy) are subsequently analyzed to address the following questions: What does explain foreign affiliates' embedding in the local system? Which are the relevant enabling conditions? At which territorial scale (urban, metropolitan, regional) does embedding take place?
As an effect of the ongoing global crisis, local governments and territorial agencies are more and more interested in detecting factors inducing foreign MNCs to maintain their investments further (Potter, 2001). Since the 2001 a number of economic development agencies worldwide have been in fact developing programmes to better embed foreign investors in regional economies. Respect to this, this study might provide some hints and policy suggestions.

2 The firm-territory nexus

Aim of this section is to focus on the interconnections between economic activities and territories through an exploration of the "the firm-territory nexus", i.e. the mutually constitutive relationships between firms and territories Dicken and Malmerg (2001).
In regional studies, the firm-territory nexus emphasizes: i) the role of space and place in shaping the transformation of firms; ii) the impact of such transformations on the processes of territorial development. More specifically, the firm-territory nexus conceptualizes the dialectic between economic activities, including such phenomena as firms, industries, and other types of systems of networked economic activity, and territorially defined economies.

A renowned milestone in the study of the relations between a firm and its external environment is the introduction of the concept of embeddedness by the sociologist Mark Granovetter. Originally, the term has been introduced in 1944 in the book The Great Transformation by another acknowledged sociologist: Karl Polanyi. Actually, many scholars analysing the social rooting of firms feel tempted to combine contributions by Polany and Granovetter in a unique theoretical framework. In Polanyi's thought, however, the embeddedness is referred to with a "twofold meaning" (Beckert, 2007, p.8), that overlap just partly with a discourse on the firm-territory nexus:

i) institutional rooting of the economy. According to this meaning, markets are necessarily limited by institutional regulations which connect them to the moral fabric of society;
ii) political or social reformist task of stabilizing a (democratic) organization of society through the institutional regulation of markets, especially in the realms of land, labour and money. Firm behaviour is thus inherently influenced and shaped by the larger social systems in which all economies are located.

Almost 40 years later the publication of *The Great Transformation*, Granovetter adopted the embeddedness concept in his article Economic Action and Social Structure, stressing the idea that economic relations between individuals or firms do not exist in an abstract idealized market. Rather they are embedded in actual social networks (Granovetter, 1985). Respect to Polanyi, who rarely used the term and considered it central in his work (Dequech, 2003; Beckert, 2007), Granovetter suggested that the embedding of economic actors, i.e. the patterns of social relationships among them, was the core variable for the explanation of economic outcomes as an alternative to the contrasting "undersocializated" and "over-socializated" views of action in sociology. According to Granovetter, economic action is "embedded in concrete, ongoing systems of social relations" (1985, p. 487). This use of the notion of embeddedness promotes a structuralist perspective, in which economic outcomes are explained by the structural properties of social networks (Granovetter, 1973). For this the embeddedness described by Granovetter is also referred to as "structural embeddedness".
Proceeding from Granovetter's programmatic essay- via further adaptations and some "interpretative misunderstandings" (Beckert, 2007, p. 10) that determined uncertainties still vivid in the current use of the concept (Montgomery, 1998) - the term embeddedness has entered in the current language. Moreover, the network approach to society and economy has gained importance not only within the new economic sociology, but also within other social sciences such as economic anthropology, economic history and economic geography (Beckert, 2007).

Among economic geographers, in particular, a huge stream of literature adopted embeddedness related concepts in analyzing local innovation processes and systems (districts, clusters, learning regions, regional innovation systems, etc.). In other words, geographers analyzed the firm-territory nexus from the perspective of cognitive and technological locally embedded exchanges. Among them, Bathelt, Malmberg and Maskell (2004) analyzed spatial clustering of economic activity and its relation to the spatiality of knowledge creation in interactive learning processes, distinguishing between the learning processes ("buzz") taking place among actors embedded in a community by just being there and the knowledge attained by investing in building channels of communication ("pipelines") to selected providers located outside the local milieu.

A major difference respect to economic sociologists is that economic geographers do not interpret embeddedness as something that contains, limits in a way, the action of economic actors. On the contrary, they interpret embeddedness as the property of economic actors whose development (economic, social, technological etc.) is firmly rooted in the local (urban, regional) system they belong to. From such a perspective the wider and stronger the roots, the firmer the territorial nexus the actor establishes locally. This nexus may be positive as well as negative in its effects. The pursuing of private aims by firms, for instance, might generate processes of barely exploitation and spoliation of local resources. Moreover, large manufacturing firms are also responsible for relevant economic, social and environmental risks. Alternatively, initially local positive externalities for the firm may turn into negative ones (in terms of rising costs, lost opportunities, local resistance etc.) eventually damaging them.

From an exploratory review of the literature focusing on global production networks, has sought to highlight and uncover the webs of relations within which MNCs are embedded, I realized these works follow at least three different approaches:

i) Institutional approach. According to this approach (that is close to Karl Polanyi's definition of embeddedness), both individual business organizations and industrial systems are socially determined. Social factors such as rules, laws, habits, traditions, etc. affect their development and display regional differences. In economic geography, an institutional approach is traditionally used in the investigation of development pathways, growth potentials and success factors from regional economies. In this sense it is.

ii) Network approach. Network analysis attracts increasing attention from scholars applying social network methods to the empirical investigation of urban (world cities, city-regions, etc.) and industrial (innovation systems, inter-organizational interaction, knowledge flows, etc.) issues (Ter Wal and Boschma, 2009, p. 793).

According to this approach (that is consistent with Mark Granovetter's focus on "structural" embeddedness), the form and the features of the overall network of relations influence the socio-economic processes.

iii) Territorial approach. This third option is that of scholars who put at the centre of their analysis the territory. It allows for a more complex explanation of embedding, as the result of a wide range of factors and relationships - physical, environmental, not only social, cultural and economic (§ 3), and re-assumes Polanyi's concern with the stability of the larger social (territorial) system. Geographers who adopt a territorial approach assume the network as an analytical tool, exemplifying organizational dynamics and cognitive processes inside economic systems (Grabher, 2006; Keeble et al., 1999), and an organizational/governance model (Cox, 1998; Marlow, 1992; Soldatos, 1992).

These approaches are all relational – they are all part of that "broader relational turn in economic geography" described by Phelps and Waley (2004) –, yet different. The institutional and network ones, for instance, have a limited perspective, as they focus exclusively on social relations and do not pay attention to the physical dimension of the firm-territory nexus. The latter, in particular, analyses relationships from a single point (structural cohesion of the ties), without taking attributes of actors and institutional rules into account (Beckert, 2007). The territorial approach, on the contrary, takes pieces of explanation from the other two, overcoming many of the abovementioned "limits".

3 The territorial embedment of MNCs

On 1993 the book *The embedded firm* edited by Gernot Grabher provided international scientific community with a comprehensive account of network forms of inter-firm cooperation. Respect to the existing research, this collection of studies extended the analysis on the economics of inter-firm relationships by assessing the social and economic issues of firms' involvement into high technology, subcontracting and regional networks. Using both institutional and network approaches, Grabher aimed at demonstrating that the success of these processes was attributable to specific forms of embeddedness of economic activity within the wider societal context.

Hereby I develop a territorial reading of Grabher's social embeddedness, introducing the concept of *territorial embedment*. Although not always mentioned in English dictionaries and encyclopaedia, in fact, the term embedment has been used by some

important scholars in territorial studies[3]. Becattini, for instance, explicitly used this term to describe the linkages between the district firm and its local community (2009).
Moreover, the use of embedment rather than embeddedness may prevent from theoretical misunderstandings as those already mentioned in section 2 with reference to the use of the term made by Polany and Granovetter.
From a practical point of view, territorial embedment results from a widening of the range of relationships that are considered influential to firms' decisions: these are not only economically and socially constructed, but they reflect also the cultural, institutional and territorial organization of the local system. At the same time, the territorially embedded firm actively contributes with its activities to the construction of the host system.
In order to clarify the concept, a useful starting point is the distinction between embedment and anchorage. In economic geography studies these terms are often interchangeable. Yet they are not the same. The embedding of a firm in a given territorial system always starts from an anchorage. Thus, the anchorage is the necessary (yet not satisfactory) condition to start the territorial embedment process. In its turn, the anchorage is related with the evolving localization process: particular conditions, such as relevant greenfield investments, proximity to important suppliers and clients, etc., can dissuade delocalization and exit strategies, making the anchorage stable even when initial localization factors (externalities) have turned from positive to negative.
As a consequence of its localization, the firm can also benefit from different types of social-economic integration with the host local context, eventually turning the anchorage into embedment. Yet this step/outcome is nothing but sure.
The economic sociologists Zukin and DiMaggio (1990) have developed a taxonomy of four types of embeddedness that are constitutive of economic agents:

- structural. It recalls Granovetter's contextualization of economic exchange in patterns of ongoing interpersonal relations;
- cultural. It refers to shared collective understandings in shaping economic strategies;
- cognitive. It derives from structured regularities of mental processes limiting the exercise of economic reasoning;
- political. Economic institutions and decisions are shaped by a struggle for power that involves economic actors and nonmarket institutions, such as the legal framework of the national State.

[3] Moreover, the term is often referred to mechanical engineering phenomena rather than to social science processes.

According to the methodological premises of my work, territorial embedment implies all, or at least most of, the dimensions described by Zukin and DiMaggio's. In addition, making reference to the analytical concept of "active networking", introduced by some scholars to describe territorialisation processes (Dematteis and Rossignolo, 2005), in this paper I assume that what distinguishes territorial embedment from other forms of anchorage is active involvement into local development processes. Consistent with the local development theory (Conti, 2006; Dansero, Giaccaria and Governa, 2008) and the approach of local territorial systems (Dematteis and Governa, 2005), active networking involves a relevant (individual and collective) involvement (strategic, project, factual) of the firm in the governance of local development processes (Bighi, Cotella and Rota, 2010).

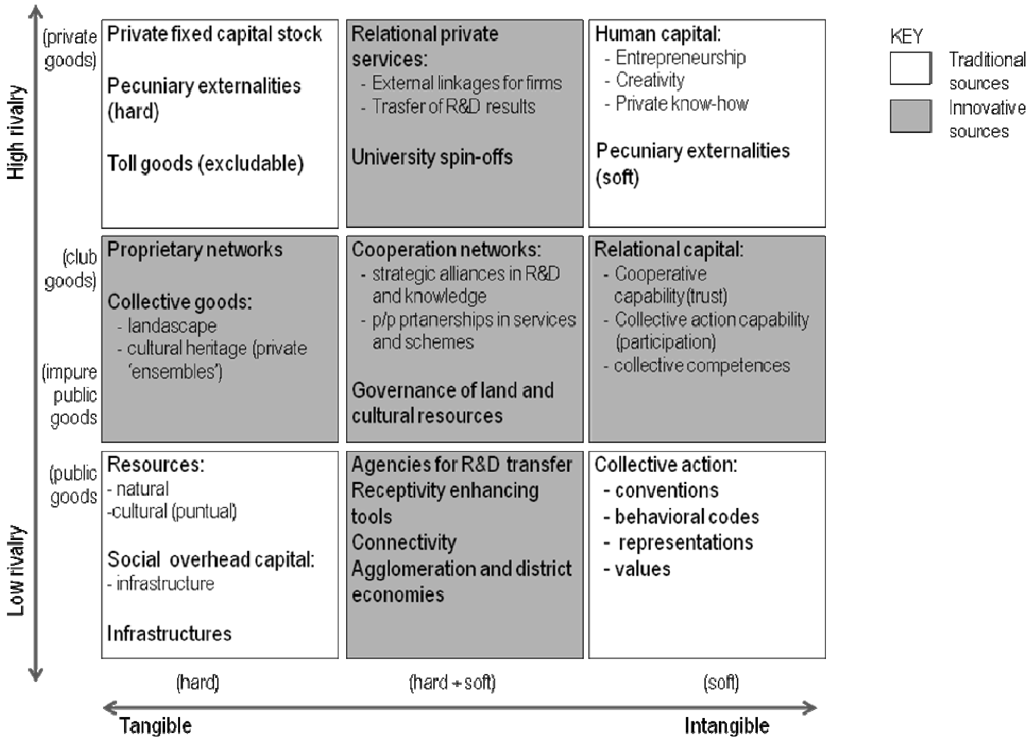
Concretely, the conditions enabling the shift from anchorage to territorial embedment are:

- Local networking. The firm is actively involved in local initiatives, relationships and projects with multiple actors and resources (economic, social, cultural, environmental, institutional etc.);
- Collective action. The firm does not pursue private interests only, but also collective and public ones. To say it differently, the firm participates to public-private and private-private initiatives such as those related to clusters, districts, technological platforms and poles, local consortia;
- Strategic commitment. The relationships between the firm and the system are perceived as strategic by both the local system and the firm. According to this, there is an active involvement of the firm in the territorial governance.

When all these conditions are fulfilled, the firm is supposed to be territorially embedded, turning from a locally-settled external agent into a (pro)active member of the local economy and society (Bighi, Cotella and Rota, 2010). Generally speaking, as embedment need time to mature, it is more frequent in firms with a long-term localization, thought lasting presence does not necessarily imply territorial embedment.
In a condition of the embedment process, mutual relationships do occur between the firm and the local system, which affect its territorial capital. Following Camagni, territorial capital is the "equipment of the territory" enabling regional development . It consists of several components (Camagni, 2008): i) localized socio-economic endowments (externalities, assets of competences, know-how and production traditions); ii) relations of proximity, constituting "capital" as they increase the static and dynamic efficiency of the local productive factors; iii) cultural elements and values,

attributing sense and meaning to the practical premises and defining the local identities; iv) laws and rules, defining a local model of governance. More specifically, Camagni (2008) indentifies nine "sources of territorial capital" (see figure 1), distinguished by different levels of rivalry (public, private and intermediate) and materiality (tangible, intangible and mixed).

Figure 1 – A classification of territorial capital according to materiality and rivalry



Source: adapted from Camagni (2008)

The elements on the four corners are defined as "classical" sources. As underlined by Capello, Caragliu and Nijkamp (2009) they are the easiest to identify, as they often come in quantities (physical capital, labour and infrastructure) or have a solid background in the economics and sociology literature (social capital). Elements on the cross, on the other hand, are "innovative" in the sense that they stem from complex cognitive processes that are cumulated in a society over time, and act on knowledge creation and knowledge exploitation, giving rise to increasing returns.

My impression is that, as such, embedded firms can contribute to both innovative and traditional components of territorial capital. Anchored firms, on the contrary, can influence traditional sources only. Consistent with this, anchorage and embedment have different territorial impacts, asking for different policy tools and governance systems.

Territorial embedment generates a more profound and lasting impact on territories than anchorage. In fact, active networking, which is at the basis of embedment, makes the firm to be not only a (pro)active member of the local system, but also an strategic source of its development: local networking, collective action and strategic commitment are relevant requisites of most of the goods Camagni identifies as innovative sources of territorial capital: relational operating services, cooperation networks, agglomeration and district economies, relational capital etc. These enables positive externalities, such as the reduction of transaction costs, easier transmission of knowledge and technology, improved access to investment and cooperation opportunities, and many other, which, in turn, are innovative levers of regional development and attractiveness. Almost certainly, embedded firms' active involvement into the local governance also allows for a better knowledge of investment opportunities and, in turn, better conditions for the reproduction of the initial investment (via reinvested earnings and new investments). In addition, their commitment can reduce the risks (economic, social, environmental, etc.) connected with their presence.

Yet embedment is hard to occur. Especially when affiliates from foreign MNCs are considered, clashes between global private logics and local collective interests can hinder the path towards embedment. In the current crisis this is a major loss for the territorial system (UNCTAD, 2008 and 2009) as foreign-owned affiliates are responsible for consistent reinvested earnings feeding inward direct investments (FDIs).

At the same time, the positive effects of embedment in a particular place cannot be taken for granted over time (Henderson et al. 2002). Local and global disinvestment or plant closure, in particular, can start a process of "disembedding" (dis-anchoring, I might say), which can be only in part hindered by local resistance (Phelps and Waley, 2004). As Phelps and Waley noted (2004), "interest in the participation of MNEs within sticky places has tended to celebrate the strength of locally bounded processes and the efficacy of local institutional capacities that are thought to be sought by MNEs. [...] Less attention has been paid to the emerging limitations of these localities and the role that MNEs do or do not play in their troubles" (pp. 196-197).

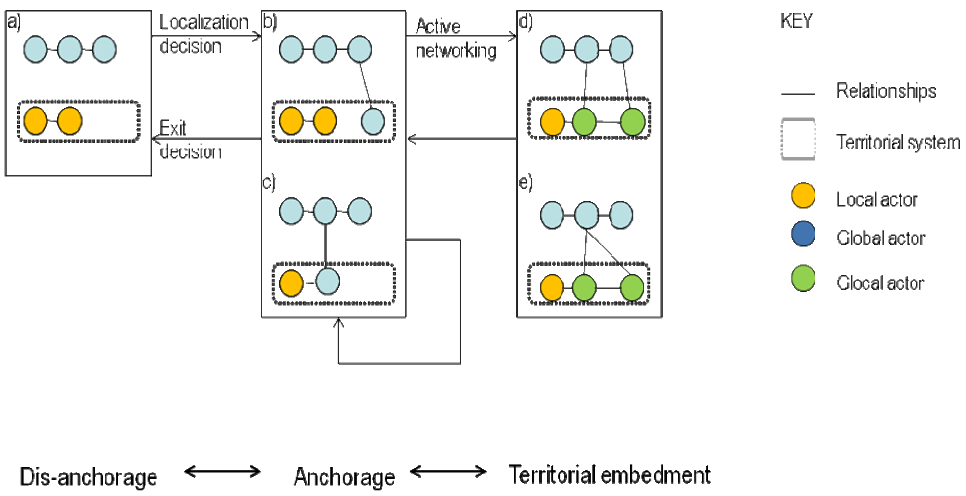
From such a perspective, the firm-territory nexus can be interpreted as a process of multilevel definition of the territoriality of places, intended as the result of a dynamic adjustment between the social components and the material and immaterial capital of a territory (Dematteis, 2005; Dematteis and Governa, 2005).

As such, the relationship between anchorage, embedment and dis-anchorage can be described as follows (see figure 2).

The decision of the parent company to localize its activities in a foreign country (a) activates/starts the anchorage process between the newly created settlement and the

selected host system. This localization process can be whether mediated/filtered by local actors (investment attraction agencies, local government, single exponents of the local society etc.) or independent. As a consequence of the anchorage, the whole MNC's global network results linked to the local system, which whom it exchanges flows via its local affiliate. As mentioned in the introduction of this paper (§ 1), the intensity of these exchanges vary according to the degree of the ownership between the parent company and its foreign unit (affiliate, associate or subsidiary relationship). Differences also result from the type of the investment/settling: greenfield (b) or brownfield (c) investments.

Figure 2 – Anchorage, embedment and dis-anchorage between local and global actors



Source: adapted from Bighi, Cotella and Rota (2010, p.21)

Over time the anchorage can embark on three different paths: dis-anchorage, enduring anchorage, or territorial embedment. The embedded firm is rooted into the local system so deeply that dis-embedment is rare and, in any case, it implies the withdrawal of embedment into anchorage first. Anchorage is a reversible process, embedment is not. Consistent with that, embedment can prevent some of the risks usually attributed to foreign direct investments such as the fact that transnational organization makes MNCs' disinvestment decisions highly flexible and fast. As suggested by Barba Navaretti and Venables (2004), the rapidity of the decision, rather than the decision itself, is a major problem for the host local system, as it prevents public administrations and civil society to timely elaborate both countermeasures and replies. As a consequence, the analysis of MNCs' anchorage and embedment emerges as a challenging topic for local

governments and investment promotion agencies more and more interested in dissuading foreign investments to move elsewhere.

4 MNC territorial embedment and dis-anchorage in the Province of Turin

In order to analyze the territorial embedment of foreign-owned firms in a given local context, I have assumed the cases of five important foreign MNCs' affiliates in Turin (Italy).

Located at the feet of the Alpine arch, in the North-Western portion of Italy (a competitive macro region in Europe (Conti, 2010; Berta, 2008; Demetrio and Rota, 2010), at the crossroad of some strategic transport axes, the metropolitan area of Turin is one of the largest (almost 2.2 million of inhabitants, 41% of which is resident in the regional capital, Torino) and richest in Italy. Torino has 908.825 in 2008 (http://www.regione.piemonte.it/stat/bdde/index.htm) the other municipalities of the province are 315 and they population is 2.290.990

Also its region, Piedmont, occupies a relevant position in national rankings. In addition, Turin is characterized by a relevant industrial specialization in both traditional (automotive, machinery, electrical equipments, food) and high-tech (aerospace, robotics, ICT) industries. Respect to the past industrial splendour, when the city pushed both local and national economic growth and it was renowned world-wide as Fiat's "one-company town", the urban industry (local units, employment, competences) has been dramatically downsized and a difficult industrial transition started (Santangelo and Vanolo, 2010). Diversification and internationalization have been major processes characterizing the last decades of the city's strategy (Associazione Torino Internazionale, 2000 and 2006). Huge functional and physical transformations, only partially due to the organization of the 20th Olympic Games, also occurred, changing the image of the city radically. As a result, nowadays Turin emerges in the European classifications and scenarios as more dynamic and lively place where to live and work (Cabodi, Rossignolo and Rota, 2010). Nevertheless, such an industrial orientation goes on being a major lever in the city's development and it still influences greatly its representations (Vanolo, 2007; Rota and Vanolo, 2007). Though the city's post-Fordist transition was associated with relevant drain of local (mainly traditional) firms, which decided to delocalize, at the same time an increasing amount of productive investments were attracted from abroad. The most part of these investments were brownfield. From the 60s, many industrial local productive units have been acquired by foreign-owned MNCs, pursuing a twofold aim: to get access to specialized competences and to enter

the local market. In particular, the presence of potential important clients in the automotive, metal-mechanic and electrical sector was a major lever in the internationalization of the urban economy (Rota and Vanolo, 2007). Greenfield investments, on the contrary, occurred above all in the service sector (ICT, bio-industry, large-scale retail, environmental consultancy), attracted by the possibility to start technological partnerships with local research centres and to widen their markets. This framework is nowadays heavy challenged by the evolving global scenario of FDI (Sansoucy, 2010) and the rising of new MNCs' strategies (Balcet, 2010) asking for timely policy responses (Lanzetti, 2010; Morris, 2010).

The problem is that there is no official international database of MNEs and the existing unofficial ones are rarely updated. For instance, in 2009, of the total 371 foreign multinational enterprises CEIPiemonte supposed to be localized in the province of Turin, 12% were not more present (for cessation of the activity, transfer in other region/country etc.), 10% did not have any local management; 5% had turned into domestic-owned firms (CEIPiemonte, 2010).

Thus, in my analysis, I considered the case of three of the residual 270 foreign-owned companies surveyed by CEIPiemonte, which were characterized by a local management (being it a key enabling condition for the establishment of relevant relationships with the territorial system). At the present stage of my analysis , I selected them among the most renowned foreign-owned companies, with a long term localization in the Turin area (10 years and over). In addition, I considered only firms from two of the most important sectors of the urban economy (automotive and Information and Communication Technologies - ICT) and I chose them among those who are considered by the common sense as a constitutive part of the system. The rationale of the selection process was to point out potential examples of territorially embedded firms. In doing that, relevant sources of background information were in fact interviews with experts, on-line and newspaper articles.

Then, I considered from the same selected industries three more foreign companies, which were, on the contrary, presumed examples of detached (dis-anchored) actors of the Turin's system. In particular, I selected them among companies both menacing to leave and recently left.

According to the automotive sector, parent companies of the presumed embedded firms are:

- the Swedish SKF. This leading global supplier of rolling bearings, seals, mechatronics products services is present from more than 40 years in the SKF Airasca district (28 km southwest of Turin) which comprises: the Automotive Division plant, the Car Corner Business Unit , the central storehouse, the Automotive

Division Drive by Wire Business Unit, the central administrative offices of SKF Industrie S.p.A;
- the Detroit (U.S.) headquartered General Motors. GM is one of the world's largest automakers. As the result of a relevant investment started years ago by GM Powertrain Europe, it will become soon operating at the Polytechnic Campus (Turin) the GM Hybrid Development Center, a structure that will be the place of the development of the new diesel hybrid cars of the automotive group.

The dis-anchored ones are:
- the Brasilian Embraco. In 1994 this world leader in hermetic compressors specialized in cooling solutions acquired in Riva di Chieri (28 km southeast of Turin) a former productive plant manufacturing compressors since 1956, in order to produce refrigeration systems to local clients (Turin automotive district). Nowadays a long delocalization process is coming to a final solution with the definitively exit of the MNC from the local system;
- the French Michelin, global manufacturer of vehicles' tires. The large historic Michelin plant "Dora", localised in the northern portion of the city, was constructed ex-novo in 1906. The choice of Turin as centre of the new Michelin factory was determined from the fact that between 1899 and 1907 in Turin were constructed more than 30 new factories of automobiles. For years the plant of Turin Dora carried out within the group the company-pilot task. Yet it was closed on December 31st, 1997.

According to the ICT sector, I considered:
- the rooted French Eutelsat, a leading European satellite operator and one of the three top operators in the world for the supply of fixed satellite services. Eutelsat's Skylogic subsidiary operates turnkey broadband services for both professional and consumer markets from its SkyPark teleport inaugurated in Turin in 2006, one of the largest hubs in the world for satellite-based broadband services for professional and consumer markets;
- the dis-anchored US Motorola. In 2008 this world-wide leader in communication solutions and services (voice and data communications systems, wireless handsets, wireless accessories, digital entertainment devices) suddenly decided to closed its Turin technology centre for Research and Development, after a decade of fertile, widely advertised, interaction with the host urban system and, in particular, with Turin's research centres.

Once selected the companies and their local affiliates, I analyzed them looking for analogies and similarities in:

i) the mutual relationships they developed with local actors;

ii) which sources of territorial capital (if any) did they affect.

In doing that, I compared, with a dynamic approach, qualitative data from interviews with both experts from the selected MNCs and local connoisseurs of their presence in the Province of Turin. In order to overcome the predictable limits related to such a methodology, the obtained opinions were completed with additional sources of information such as local media, on line documents, scientific publications, etc.

CEIPiemonte, in particular, has been an extremely significant source of information, since it started a survey of the MNE presence in the Province of Turin (under the project Observer) contextually to my analysis. This observatory, financed by the Turin Chamber of Commerce is mainly based on questionnaires and interviews, and it aims at diffusing among policy makers and the civil society a deeper awareness of the preferences and issues of the foreign enterprises that have chosen to settle in Turin. As a result, I discovered both expected and unexpected results (for a summary, see table 1).

According to the active networking it is quite rare and it is very difficult to say anything on that at the present stage of the research. Thus, I prefer to focus mainly on the contribution of territorial capital from foreign MNCs.

Preliminary results from the interviews show that localized relational private services are quite frequent among both embedded and isolated companies. GM, Motorola and SKF, in particular, developed external linkages with other local firms, as well as they transferred R&D results to other actors of the local system. All of them found in the Polytechnic of Turin a relevant partner with whom to share R&D results. Yet, the occasions are quite different. Quite peculiar is, for example, the decision of SKF and GM to be technical partner of the Polytechnic team of almost 30 engineering students (the “Idra - Team H2polito” participating to the “Shell Eco-Marathon Europe” organized in Lausitz (Germany) on May 6-7th (another foreign partner is Autodesk). Thus, the two MNC have transferred some of their R&D results to the students to develop their project of a low-consume car prototype (Idra), fed by hydrogen, which has been already presented to domestic and international fairs (Bologna’s Motorshow, Rome’s MoTechEco, Hannover Messe). Embraco, Eutelia and Michelin, instead, developed above all important economic relationship with local clients and draw (at least initially) competences from the local labour market.

According to the proprietary networks & collective goods, some companies are proprietary of important landscape and cultural resources such as SKF and GM, whose plants are successful examples of industrial archaeology recovery, deeply characterizing the surrounding landscape. Michelin, Motorola and Eutelia also recovered dismissed industrial areas yet with a limited impact as urban landmarks.

Another interesting result regards the Cooperation networks & Governance of land and cultural resources: all the (presumed) embedded companies have in fact developed public-private partnerships in services and schemes of public interest, which deeply rooted them into the local system. SKF, for instance, is member of the Turin Consulta per la Valorizzazione dei Beni Artistici e Storici (Consultative Committee for the Artistic and Historical Heritage) promoting and financing artistic and cultural events, as well as the restoration of important urban architectural/artistic masterpieces. GM organizes a yearly running competition (GMove) that brought together many different local companies and regional associations for one day.
Relational capital might also emerge as an important feature. Yet it still needs further analysis (interviews) to be properly understood. Agencies for R&D transfer, Receptivity, Connectivity & Agglomeration and District economies, on the contrary, are not so much relevant among the selected companies.

5 Some preliminary conclusions

The results of my investigation seem to demonstrate that not all the dimensions of territorial capital are relevantly influenced by embedded companies: *Relational private services* and *Cooperation networks & Governance of land and cultural resources*, in particular, result important in the investigated embedded cases. The case of SKF is clear from this perspective: a strong involvement in endogenous cultural activities developed by the Turin's Consulta is related to a strong and proactive local commitment. Also *Proprietary networks & Collective goods* seem to be important. While, almost surprisingly, *Relational capital* and soft goods such as agglomeration and district economies or R&D transfer services characterize isolated companies more than embedded ones. Nevertheless further analysis is due in order to make a more robust test.
As to the practice, since the 2001 pioneering economic development agencies in OECD member countries have been developing programmes to better embed foreign investors in regional economies. "One part of the effort to better embed foreign investors involves attempts to attract higher quality investment by targeting operations that are more knowledge-intensive, have greater managerial autonomy and have mandates to sell products in several countries. [...] A second aspect is to develop programs to better integrate foreign investors into regional networks of firms and institutions. Such programs tend to work in two ways. Firstly, efforts are made to increase the scale of local linkages of foreign affiliates, both by encouraging foreign affiliates to increase their local linkages and making them aware of the opportunities to do so and by

working with local firms and institutions to bring them up to the standards required by foreign investors. Secondly, efforts are made to influence the nature of the relationships between foreign investors and local firms and institutions towards deeper collaborations, which are more likely to yield positive spin-offs, for example by encouraging tutoring of local suppliers by foreign investors. The development of such programs reflects an increasing recognition that policies for the attraction of foreign investment must be accompanied by policies for its long-term embedding of FDI in regional economies" (Potter, 2001, p.1). Yet these policies were focused on economic relation only. They ignored the policy aspect and this is probably the reason why they did not succeed in their aims.

In conclusion, the survey has shown that the embedded MNC contributes to feed both the local competitive advantage (providing the host system with ideas, resources and opportunities) and its resilience to economic downturn (maintaining the local investment). Even when an exit strategy has been adopted by the embedded MNC (i.e. it has turned to anchorage and disinvestment) some positive legacies have survived in the local system. It follows that territorial embedment emerges as a relevant policy aim in the territorial development activities of regional governments and investment promotion agencies.

Table 1 – Firm contribution to innovative territorial capital

	Automotive				ICT	
	embedded (presumed)		isolated (presumed)		embedded (presumed)	
	Skf	Gm	Embraco	Michelin	Eutelia	Motorola
Relational private services; University spin-offs (private goods; hard+soft goods)	External linkages for firms Trasfer of R&D results	External linkages for firms Trasfer of R&D results	External linkages for firms	External linkages for firms	External linkages for firms	External linkages for firms Trasfer of R&D results
Proprietary networks & Collective goods (club/impure public goods; hard goods)	Landascape Cultural heritage (private 'ensembles')	Landascape Cultural heritage (private 'ensembles')		Cultural heritage (private 'ensembles')	Cultural heritage (private 'ensembles')	Cultural heritage (private 'ensembles')
Cooperation networks & Governance of land and cultural resources (club/impure public goods; hard+soft goods)	P/p partnerships in services and schemes	Strategic alliances in R&D and knowledge P/p partnerships in services and schemes			P/p partnerships in services and schemes	Strategic alliances in R&D and knowledge
Relational capital (club/impure public goods; soft goods)				Collective competences		Collective competences
Agencies for R&D transfer Receptivity & Connectivity Agglomeration and District economies (public goods; hard+soft goods)		Receptivity & Connectivity	Agglomeration and District economies		Receptivity & Connectivity	

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ABSTRACT

Much of the geographical debate on industrial production has recently focused the formation of increasingly global networks (referred in the literature as value, commodity or production chains) ruled/controlled by multinational firms (MNCs) and their foreign affiliates. Yet, the rationale of these networks is the exploitation (or the control) of resources that are local, i.e. localized and rooted into specific territorial systems such as cities, regions or clusters. It follows current industrial production is the result of a complex geography of connections between firms, with a global scope and structure, and territories endowed with local assets and networks.

Starting from this, the paper investigates two main steps/outcomes in the formation of the firm-territory nexus via a decision of foreign direct investment (FDI): i) the anchorage of the foreign company to the host local economy; ii) its territorial embedment into the territorial system. In the perspective of this study, the former is the result of the investment decision tout court. The latter represents the highest integration level between the firm and the territory, when the firm becomes both a recognized component of the local territorial capital and an active actor of local development processes.

Between these initial and final conditions there are many intermediate situations influencing– this is the hypothesis of this paper – the future development of both the MNC and the local system in a different way.

In this paper the results of interviews with a selection of six foreign-owned affiliates with a lasting/long presence in Piedmont (Italy) have been used in order to investigate the effects of territorial embedment processes in terms of both the stability and the quality of the localisation of FDIs in a given regional economy.