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Attracting Foreign Direct Investment Through "Soft-Landings" Initiatives

By Perry B. Newman

GLOBAL PERSPECTIVES AND BEST PRACTICES

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INVESTMENT THROUGH "SOFT-LANDINGS" INITIATIVES

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Economic developers around the world are keen to attract foreign direct investment ("FDI")[1] to their locations for a number of reasons: research suggests that jobs created or supported by FDI tend to pay more and last longer than comparable jobs created by purely domestic investment. In addition, when the global resources of a larger investor are brought to bear, workers often benefit by enhanced training and learning opportunities, and the potential for shared intellectual property across company lines increases.[2]

Thus, when a foreign company, particularly a larger firm, acquires an operating firm or announces plans to establish a significant operating presence in a community, it is often regarded as something of an economic development triumph.[3] Unless they occur in the context of a liquidation or other distressed sale situation, such acquisitions or investments frequently signal the foreign firm's strong interest in increasing or enhancing the economic output of the firm that it acquires or in which it invests, to the continuing benefit of the community and its residents.

FDI in the United States is an important economic driver. In 2010, FDI into the United States totaled $194 billion and exceeded $1.7 trillion over the preceding ten years.[4] Foreign investment into majority-owned affiliates of foreign companies in the United States accounted for 5,435,400 employees, of whom 2,013,500 were employed in manufacturing.[5] Foreign owned firms generated $3 trillion in sales, $240 billion in exports and spent $42 billion on research and development, in 2010 alone.[6]

An international community, seeded by early-stage companies and entrepreneurs, begets a wider international mindset, which eventually creates a more substantial and attractive foundation upon which larger business attraction, employment, and investment platforms and initiatives can be constructed. People and businesses begin to think and act more "globally," which in turn creates an openness to new ideas and opportunities.

Given these economic impacts, it is easy to see why FDI attraction is a focus of economic development efforts and initiatives in every corner of the country.

Historically, many discussions of FDI, and especially the pros and cons of FDI in macroeconomic terms, have tended to focus on the impact of acquisitions by multinational firms of smaller local firms. It is in this context that the phrase "economic imperialism" was initially coined, as larger firms, typically from developed countries, swallowed up smaller, locally owned or controlled firms and exercised what some considered dominion over the firm, employees, the local economy and, to some, the host country as a whole.[7]

Of course, these days globalization has in many respects "flattened" the economic hierarchy of nations and the international investment environment generally.[8] Just as barriers to trade have fallen and new export markets have opened, barriers to investment have also fallen or been reduced dramatically, with the result that FDI to and from many nations, and not merely from the developed world to developing economies, has grown substantially.[9]

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In the quest to attract foreign direct investment to their communities, economic developers are reaching out not only to larger, established global companies, but to early-stage companies seeking a toehold in a foreign market. Through targeted and tailored service offerings, communities can offer these smaller investors a "soft landing" in the market. There are challenges associated with these efforts, however, ranging from identifying and qualifying investors to measuring the results of attraction efforts. The most successful soft-landing programs are those that leverage partnerships with other economic development organizations, those that sustain the effort, and those that take a longer and more holistic view of economic impact on a community.

As the global investment environment has thus become more "democratized," economic developers most frequently set their sights, from a business attraction standpoint, not only on larger firms from developed countries but from emerging, high growth economies as well. In most cases, however, the focus of FDI attraction efforts continues to be on larger firms for several reasons.

First, larger firms are most likely to be in a position to make a significant investment in a community, and thus either save or create a significant number of jobs. Second, the cost of pursuing FDI leads is usually higher than the cost of pursuing domestic investors, since travel to distant locations, preparation and translation of marketing and collateral materials, and other logistical challenges must be considered.

In other words, the trophy must be worth the price of the chase. The payoff in terms of jobs and investment in the community must justify the expense. Thus, the pursuit of the "big fish" continues to characterize many FDI attraction efforts.

All this said, there is a movement afoot among economic developers in locations around the world to focus not only on such targets but to spend more time developing programs, facilities, and assets of potential interest to early-stage companies based abroad. Economic developers even court individual entrepreneurs who may not be in the position of employing significant numbers of persons for several years, but are deemed to be high-potential targets in terms of their long-term potential, a technology synergy or other key criteria identified by the host community.

Given the difficulty and expense associated with attracting larger foreign investors, however, the effort and expense of pursuing early-stage companies, let alone start-ups and individual entrepreneurs, seems counterintuitive.

Wouldn't such an approach be almost unmanageably "granular," requiring a level of data collection, development and research triage beyond the capacity of most organizations? How would one go about identifying and qualifying such prospects? What can a community offer to such a prospect that would make it attractive for such an investor to establish a presence abroad? And, assuming the prospect decides to invest or relocate, what is the likelihood of their creating meaningful economic impact in a host community?

Bluntly put, why would economic developers spend time and treasure pursuing early-stage companies, even individual entrepreneurs? What's the payoff? Can it ever be worth the effort?

In fact, for many economic developers, the pursuit of foreign entrepreneurs, start-ups, and early stage firms is worthwhile not so much because these investors create an immediate or substantial economic impact, but rather because they help to *internationalize* a community, create a talent base, and generally help to foster the conditions under which additional economic impacts may be cultivated in the future. The benefits of attracting foreign investment at a very early stage can be both tangible and obvious, but quite often the benefits are subtler and require a more holistic context in order to be fully appreciated. Indeed, articulating the positive economic impacts of early-stage investment is one of the more important efforts and strategies that a successful soft-landing incubator should pursue.

HOW IT'S DONE

One would expect that the effort to attract even early-stage foreign investors requires carefully honed messages and distinct assets and resources, in much the way that more traditional FDI efforts require their own tools and strategies. Indeed, marketing materials and messages crafted for the purpose focus specifically on the particular needs of entrepreneurs with few resources or capacities at their disposal.

For the potential early-stage foreign investor, the desire to locate a sales office or conduct research and development in the United States may be a competitive imperative. In other words, for the company to grow and approach its potential, it may need to be close to talent, natural resources, university research partners, and the like that may exist uniquely in this country.

But the prospect of establishing even a modest presence in another country, particularly one as large and complex as the United States, is daunting. Deciding where to locate, how much to pay for premises, how to navigate bureaucracy, how to commercialize research and development, how to organize from a legal standpoint … all of these are critical considerations, yet the answers are likely to be complex and the process of deciding potentially costly.

The economic developer's goal is to provide such investors with a "soft landing" in the community. Thus, available assets, tools, and resources must be marshaled and mobilized with an eye towards offering a particular kind of investor what it will need, as a stranger in a strange land, to acclimatize, function, and ultimately thrive in an unfamiliar environment.

As it happens, the needs of the foreign investor and the challenges faced by the economic developer align nearly perfectly in the service offerings and efficiencies inherent in a business incubator.

The National Business Incubation Association (NBIA), the nation's leading organization dedicated to advancing entrepreneurship through the process of business incubation, defines that process as follows: "[B]usiness incubation is a business support process that accelerates the

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NATIONAL BUSINESS INCUBATION ASSOCIATION (NBIA) SOFT-LANDING ELIGIBILITY CRITERIA

- Hold an active NBIA membership (at least one individual in each applicant incubator must be an NBIA member)
- Can demonstrate program success in serving foreign/nondomestic businesses for at least 18 months prior to the Soft Landings application due date
- Have on-site incubator management
- Provide a full range of business services addressing the needs of foreign firms
- Have a policy for graduating companies

Successful applicants will demonstrate a positive track record in the following areas:

- Serving as a first landing site for foreign/nondomestic clients (as opposed to a second or third expansion site)
- Incubating nondomestic clients in the incubator's domestic market (inbound activity)
- Instituting business incubation best practices
- Tracking metrics of success with all incubation clients (not just foreign/nondomestic firms)

successful development of start-up and fledgling companies by providing entrepreneurs with an array of targeted resources and services." [10]

These services are usually developed or orchestrated by incubator management and offered both in the business incubator and through its network of contacts. A business incubator's main goal is to produce successful firms that will leave the program financially viable and freestanding. These incubator graduates have the potential to create jobs, revitalize neighborhoods, commercialize new technologies, and strengthen local and national economies."[11]

With 1,900 members in 50 countries, the NBIA has for some time understood the synergies between incubation generally and the needs of foreign, early-stage companies as they enter foreign markets. Thus, as a means to ensure that incubators understand (and tailor their offerings to) the needs of foreign firms they may wish to attract, and so that foreign firms can be assured of appropriate standards and essential service offerings made available by these incubators, the NBIA developed a formal soft-landing certification for which incubators may apply.[12]

Randy Morris,[13] director of Member Services at NBIA and the individual responsible for administering the soft-landing program, notes that the designation has been in existence since 2005 and that the program has grown gradually. There are currently 24 soft-landing sites globally, of which roughly half are located in the United States. The process of obtaining the soft-landing designation is designed to ensure that qualifying incubators not only offer the appropriate targeted services, but that they have experience working with foreign firms. Thus, only about 50 percent of applicants for soft-landing designation receive the NBIA's approval on the first application.

An incubator that has been designated as a "Soft Landing International Incubator" may market itself as such to potential investors, and thus seek to differentiate itself from other incubators or communities that may be competing to attract early-stage firms, as well. Of course, any incubator can seek to attract foreign investors and in so doing offer the services common to soft-landing environments, such as translation services, market research, counseling on import/export regulations, legal services, and the like.

The certification, like all *bona fide* standards and certifications, provides market positioning and branding opportunities to the "vendor," i.e., incubator, and comfort to the "consumer," i.e., investor, that it is obtaining a baseline of services and resources upon which it can rely in growing its business internationally.

WHY IT'S DONE

The benefits are clear to a foreign investor in locating within a soft-landing environment. An incubator provides resources and opportunities on an extremely cost-effective basis. While the details of an offer may vary from incubator to incubator, depending upon size, location, industry sectors served, and specialized equipment required, it is almost universally the case that the investor is able to establish some kind of presence in the market on highly favorable economic terms, certainly compared with what would be incurred in going it alone.

The benefits to the incubator, however, and to the communities in which they are located, may be less obvious. While traditional FDI attraction efforts are most often focused on prospects that are likely to create economic impact through job creation, soft-landing initiatives and the targets of soft-landing attraction efforts are not likely to create jobs or major economic impacts in the short, or even medium-term.

So why bother?

Geraldine Quétin[14] is a business incubation expert in Nice (France) who has developed and managed incubators in France and worked to attract American entrepreneurs to France as part of the French government's impressive YEi program.[15] Quétin observes that the benefits to the incubator and to the community at large are often longer-term and are to be measured not merely by jobs created, but by the value-add a community experiences by virtue of becoming more internationalized in terms of its resident talent and its exposure to outside economic opportunities.

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UNIVERSITY OF CENTRAL FLORIDA SOFT-LANDING PROGRAM BENEFITS

- Satellite office space with flexible short term lease at nine sites in four counties in Central FL
- Connections with the Central Florida business community
- Access to a network of training and meeting rooms
- Access to a PR Bureau for Press Release creation and distribution
- Domestic market research through UCF Venture Lab
- Access to experts concerning import/export laws and regulations
- Cultural training
- Connections to UCF faculty and students

SOFT-LANDING ELIGIBILITY REQUIREMENTS

- Be a for-profit business in a high-growth field
- Have all the valid paperwork needed to conduct business in the USA
- Have the ability to pay monthly rental fee for the intended term of occupancy
- Have potential for positive economic impact on the community through a technology, product or service deemed to have a high potential impact in the marketplace; and having potential for creation of new high paying jobs.

If more concrete metrics are required, Quétin notes that the following indicators may reflect the economic impact of a soft-landing program:

- Is the start-up or early-stage company still "alive" after five years?
- Is it generating revenues?
- Are other companies generating revenues by virtue of the company's or investor's presence?
- Has the company successfully raised money?
- Have other companies in the start-up's "eco-system" raised money?
- Are there other quantifiable "ripple effects" resulting from the investor's presence, i.e., are additional companies locating in the region, are university graduates in relevant disciplines coming to the region, are new university programs being developed, and are university-industry partnerships arising.

Finally, Quétin notes that soft-landing programs and the investors/participants in them become, in the best case scenarios, part of a global network of incubators and support systems that nurture innovation and early-stage company growth. These networks provide further tools to companies with growth potential, enable communities to link to each other and share resources and best practices, and generally facilitate the development of a community's international "brand" and receptivity to foreign investment.[16]

A recent study of university business incubators globally by the University Business Incubator Index also highlighted these criteria and indicators concluding, following a review of 150 university-affiliated incubators, that successful incubators create value for the eco-system in which they live and operate, create value for clients, and produce strong post-incubation performance.[17]

Tom Strodtbeck,[18] director of International Programs for the NBIA, agrees that networks can be an important component of an incubator's success and in particular the development of best practices, but stresses that the benefits to communities in which soft-landing programs exist are not necessarily as indirect as one might surmise. The partnerships that develop between incubators and the wider economic development communities in which they operate often lead to concrete economic impacts, including the referral of high-growth prospects, local resources being brought to bear for the benefit of growth companies, and jobs being created when individuals and companies with new ideas are brought to the attention of existing, larger firms in the area.

Soft-landing programs, Strodtbeck points out, are most effective and produce best results for their tenant companies and the communities in which they operate when they play to their strengths and capitalize on niche industry sectors, resources, capabilities, and connections. Merely locating an incubator in a facility that is currently underutilized seldom advances the ball; building upon a community's talent, leveraging natural resources and natural resource industry expertise, however, to create an incubator focused on that industry, can prove attractive to foreign start-ups in the same industry seeking access to the local market.

In the final analysis, attracting a promising early-stage company to locate in a soft-landing incubator is unlikely to mean dozens of jobs in the near-term. But attracting the right company, or the right mix of companies, can create or build upon a nucleus that can be leveraged for the benefit of the wider community as word spreads, benefits are shared, and global expertise and profile become more tangible and marketable.

As part of a larger entrepreneurial eco-system, a soft-landing incubator can enable a community, other incubators, even an entire industry to punch above its weight, delivering economic impact and enhancing a regional brand that facilitates larger FDI attraction efforts.

FROM THE FRONTLINES …

Soft-landing incubators, whether they have obtained the formal NBIA designation or simply provide services tailored to the needs of early-stage foreign companies, face a number of challenges familiar to economic development professionals at every level of the industry.

How does one measure the economic impact of an initiative? If impacts are small, subtle, or not immediate, how does one justify the continued effort and dedication of resources?

Gordon Hogan, director of the University of Central Florida's multi-location incubator system,[19] notes that the costs of implementing a soft-landing program and providing the services important to soft-landing tenants are quite low, particularly when compared to the costs of more traditional FDI marketing efforts. In fact, many of the resources a foreign company will need are the same that domestic or local tenants desire, i.e., inexpensive office space, common areas, internet access, etc. Specialized services, such as translation services or legal advice, are typically provided by offsite experts on a reduced cost basis.

Offering soft-landing services need not be a costly endeavor and seldom adds to the ordinary day-to-day costs of an incubator's operating expenses.

Traditional FDI attraction efforts can be quite expensive, by contrast, and may include travel and marketing/trade show expenditures, the costs of site location consultants, collateral materials, hospitality expenditures, and more. In addition, states and communities typically offer incentives to attractive larger foreign investors, thus adding to the cost (in terms of forgone tax revenues) of each job created or sustained via the investment.

The bottom line is that the costs of soft-landing initiatives are low and should not be considered an impediment to the development of a soft-landing program or site.

PARTNERSHIPS ARE KEY

Because soft-landing sites often have limited budgets and because the world of start-ups and early-stage investors is so widely dispersed, it is essential that soft-landing incubators operate in partnership with and as components of a larger economic development eco-system. A state or metro economic development corporation can disseminate an incubator's literature and be on the lookout for potential soft-landing candidates during trade missions and as inquiries regarding the region at large are received.

In order for the wider economic development community to market the soft-landing incubator's resources most effectively, the incubator must reach out and proactively inform partners and other economic development providers and professionals of the importance of the incubator, the ways in which they can work together, and the value that the incubator can bring to the wider community.

Hogan, the UCF incubator director, notes that one of its most intriguing and potentially most successful soft-landing tenants came to the incubator as the result of a contact made by an economic development official from a neighboring community and not via a direct effort of the incubator. Here, as in so many circumstances, much more can be gained by working together and exchanging information than by operating in silos.

TAKE-AWAYS

Soft-landing initiatives can be a useful and productive tool in a community's economic development basket of investment attraction offerings. While the economic impact, particularly in terms of job creation, of soft-landing investment is likely to be modest in the short term, the benefit to the wider community in which investors are located can be significant and bear fruit in terms of overall talent development; industry sector diversification; and cross-pollination between firms, academic institutions, and larger businesses.

Economic development professionals know that incubators as a whole punch well above their weight in economic impact, i.e., the cost per job created is low, revenues and economic spillovers are impressive, and the deployment community assets to create economic development eco-systems facilitates stability and sustainable economic development potential.

A 2011 economic impact analysis[20] of five state-supported incubators in New Mexico, for example, found that 98 firms graduated from the incubators over the preceding five years, and an estimated 78 percent of those companies were still operating. Moreover, the existing tenants and incubator graduates, which total 178 firms, supported 1,601 direct jobs and another 1,056 indirect or induced jobs, for a total impact of 2,657 jobs.

In a 2010 article,[21] The National Business Incubation Association estimated there were 41,000 startups using 1,200 incubators across the country and participants' survival rate after five years was 87 percent, compared with 44 percent for companies that didn't use incubators.

Finally, a 2013 study[22] of three incubators operated by the Polytechnic Institute of New York University concluded, "The rapid growth of New York City's innovation economy has been fueled by three Polytechnic Institute of New York University (NYU-Poly)-operated incubators that generated $251 million in economic activity since 2009, created more than 900 jobs and contributed $31.4 million in local, state and federal tax revenue." The study also found that out of the 102 start-ups: 35 have graduated to larger spaces in New York, five have been acquired by larger entities for more than $50 million, and salaries paid by graduating companies average $72,000.

It is also worth repeating more familiar statistics that underscore the importance of small businesses generally. Small companies, i.e., those with ten employees or less, accounted for 90 percent of all business establishments in the United States, 30 percent of all U.S. jobs, and 25 percent of all U.S. sales.[23]

The bottom line: For a community that wishes to build a foundation, or build upon an existing base, of international talent, intellectual property, cultural diversity, global expertise, economic stability, and sustainable growth, a well-crafted soft-landing initiative integrated into an effective incubator system can yield impressive and highly cost effective results.

These results will most likely come to fruition when economic development organizations partner, exchange information, cross-sell, integrate offerings when feasible, and clearly articulate the assets and resources available in the soft-landing environment.

ENDNOTES

1. According to the Organization for Economic Cooperation and Development (OECD), "FDI is defined as cross-border investment by a resident entity in one economy with the objective of obtaining a lasting interest in an enterprise resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the direct investor on the management of the enterprise. Ownership of at least 10% of the voting power, representing the influence by the investor, is the basic criterion used." See, www,OECD-Library.org.
2. See, *Does FDI Bring Good Jobs to Host Countries?*, B. Javorcik, University of Oxford, Background Paper for the World Development Report, 2013.
3. There are, of course, exceptions. Communities and workers may react negatively when the investor is based in a country with a less than sterling reputation for corporate citizenship, for example, or if there are points of friction between the respective governments of acquiring and acquired companies. By and large, however, a significant investment made by a reputable foreign company is considered good economic news for a community.
4. *Foreign Direct Investment in the United States Executive Summary;* By David Payne and Fenwick Yu, Office of the Chief Economist; U.S. Department of Commerce Economics and Statistics Administration; ESA Issue Brief #02-11; June 2011; http://www.esa.doc.gov/sites/default/files/reports/documents/fdiesaissuebriefno2061411final.pdf.
5. *Foreign Direct Investment in the United States, Bureau of Economic Analysis,* http://bea.gov/international/di1fdiop.htm.
6. *Foreign Direct Investment in the United States Executive Summary;* By David Payne and Fenwick Yu, Office of the Chief Economist; U.S. Department of Commerce Economics and Statistics Administration; ESA Issue Brief #02-11; June 2011; http://www.esa.doc.gov/sites/default/files/reports/documents/fdiesaissuebriefno2061411final.pdf.
7. See, Mousa, Foreign Direct Investment: Theory, Evidence and Practice, (2002) Palgrave Publishers, Great Britain.
8. See, Friedman, Thomas L., The World Is Flat, Farrar, Straus and Giroux, New York, NY (2005).
9. See, http://www.cfr.org/foreign-direct-investment/foreign-investment-us-national-security/p31477?cid=soc-twitter-in-backgrounder-foreign_investment_and_us_nati-092913, at fig. 1.
10. www.nbia.org.
11. Id.
12. Frequently cited service offerings and criteria for certification are listed in part here. http://www.nbia.org/member_services/soft_landings/details.php.
13. http://www.linkedin.com/in/randymorris1.
14. http://www.linkedin.com/in/gquetin/fr.
15. http://www.yeifrance.com/.
16. An outstanding and highly evolved network, backed by government investment on an international basis, is the European Business Network, a project of the European Union. See, http://ebn.eu/Default/aspx.
17. For a discussion of the Report, see, http://medictynews.com/2013/06/what-makes-a-great-startup-incubator-a-few-ideas-job-revenue-creation-smart-mentors/.
18. http://www.linkedin.com/pub/tom-strodtbeck/2/873/683.
19. http://www.incubator.ucf.edu/.
20. The Economic Impact During 2011 of New Mexico's Business Incubators, March 26, 2012, Prepared for New Mexico Economic Development Department by Impact Data Source, LLC.
21. *Betting on Incubators to Create Jobs*, Bloomberg Business Week, Lauren Hatch, August 12, 2010.
22. *NYU-Poly Incubators and Their Economic Impact*, Polytechnic Institute of New York University, July 2013, http://www.poly.edu/business/incubators/impact.
23. http://youreconomy.org.