DEPAUL UNIVERSITY

The Comparative Advantage of Cultural Congruence

A Study of US FDI into Ireland

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Abstract: Cultural congruence between two nations encourages foreign direct investment and forecasts the success of multinational corporations. Culture as a comparative advantage is demonstrated in the relationship between Ireland and the United States. The two nations' cultural compatibility, as demonstrated by the Hofstede Framework, supports the high volume of American investment into Ireland.

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Introduction

In today's rapidly globalizing world, foreign direct investment (FDI) promotes international business and cross-national relations. This system of foreign investment is reliant on theories of comparative advantage, global production, and monetary policies. Companies choose to invest in foreign countries over their own domestic marketplaces often because the comparative advantages offered by the differing nations may outweigh the transaction costs. Some traditional comparative advantages of FDI for the source company include wage differentials, natural resources, and technology. One large comparative advantage that is often overlooked in the discussion of FDI is culture. This added component of foreign investment can reduce transaction costs involved in both the introduction and the operation of a multinational corporation (MNC) in a foreign land. This thesis aims to highlight the importance of cultural congruence between two partner nations in forecasting the success of future MNCs using the case of Ireland and the United States.

FDI inflows have increased drastically in the past few decades and were substantially influential in the 2007 recession. The growth of FDI throughout the world prior to 2007 created a system of increased globalization and interconnected economies. As a result, when one nation's GDP fell, FDI inflows (on which other nations' where dependent) dropped dramatically. This created a domino effect of damaged economies across the world. Since then, FDI inflows have begun to rise again, with both developed and developing nations using MNCs as a source of capital availability.

The Republic of Ireland is the largest recipient of FDI (as a percentage of GDP) in Europe and the third largest in the world. This small nation depends on FDI as a source of capital, employment, and as a contributing factor to its gross value added (GVA). The Irish government promotes Ireland as an attractive FDI host country through publications by its Department of Finance, as well as through its non-commercial, semi-state body IDA Ireland.

Ireland's largest financial incentive for multinational corporations to invest in Ireland is the nation's low corporate tax rate and surplus of knowledge workers. These two factors are among the most highly publicized by the two aforementioned agencies and positively influence many major companies' decisions to locate in Ireland.

Ireland's attractive location as an FDI host is especially appealing to American MNCs, looking to invest in Europe. The United States and Ireland have strong economic ties that make Ireland largely susceptible to the fluctuations of the US marketplace. One of the largest contributing factors of this dependent relationship is the similar cultures of the two nations, which creates a comparative advantage in foreign investment. The cultural compatibility of Ireland and the United States encourages FDI and forecasts the success of American MNCs in Ireland.

This similarity is quantified by measures outlined in the Hofstede Framework. This framework utilizes six dimensions: individualism, power distance, masculinity, uncertainty avoidance, long-term orientation, and indulgence. This thesis explores the first three of these six dimensions, as individualism, power distance, and masculinity, are more applicable to the nature of wholly-owned subsidiaries, of which most American MNCs are.

Culture distance, according to some theorists, can increase transaction costs and decrease the chances of success for entering MNCs. This thesis explores the role that a relational approach to cultural compatibility might have on the healthy economic relationship between the United States and Ireland, by providing a strong comparative advantage above any financial incentives. The cultural similarities and direction of unilateral investment between the two nations are contributing factors to the history of success and the ongoing relocation of American MNCs into Ireland.

Chapter 1 discusses FDI and comparative advantage and the theoretical research on the concepts. This chapter provides background on the importance of FDI, broadly, in the world economy and it explains why both nations and companies engage in this form of foreign investment. Chapter 1 contributes to the theory of culture as a comparative advantage by highlighting the mutually beneficial results of successful FDI.

In Chapter 2, the thesis elaborates on FDI in Ireland, specifically. This nation has a unique position as a host country for foreign investment, especially in relation to the United States. Ireland provides many incentives to attract MNCs, and its largest FDI source (the US) has a relational comparative advantage in cultural congruence.

Chapter 3 elaborates on the theoretical basis for including culture as a competitive advantage in attracting FDI. This chapter provides analytical support for including this component into the broader discussion of foreign investment. As a theoretical chapter, this section emphasizes past discussions on the intersection between culture and international management. In conjunction with Chapter 4, this section explains the relational approach to culture as a competitive advantage.

Finally, Chapter 4 explores the economic and cultural relationship between the US and Ireland. These two nations have a strong foreign investment relationship, and their economies are inextricably intertwined. The strength of this relationship, emphasized by this chapter, is found in the cultural compatibility of the two nations, both qualitatively and quantitatively, as demonstrated by the Hofstede Framework. Chapter 4 provides support for the application of culture into the broader FDI discussion.

Chapter 1: Foreign Direct Investment and Comparative Advantage

Governments around the world often expend significant resources attempting to attract foreign investment. Foreign direct investment (FDI), or the investment made by a company based in one country into an entity based in another country, has increasingly become a common source of capital for both developed and developing nations (Brewer 1993). FDI differs from foreign indirect investment, such as portfolio flows, or equity trading, etc. in that firms making direct investments often have the ability to exercise control and influence into the companies they fund (FT Lexicon 2016).

Foreign Direct Investment and Capital Formation

FDI works as a source of increasing capital for both the host nation and the multinational corporation (MNC). Economic growth is impossible without capital accumulation, and in an increasingly globalized world, countries need to be competitive in order to retain their economic and political positions. Capital can be obtained through internal, domestic production or through inward investment. Adam Smith explains in *The Wealth of Nations*:

> The annual produce of the land and labour of any nation can be increased in its value by no other means, but by increasing either the number of its productive labourers, or the productive powers of those labourers… In either case, *an additional capital is almost always required* (Smith, Cannan, Lerner, 1937) (italics added)

The capital of a country must be accumulated through the production of goods and services, which requires an initial influx of capital with which to begin. FDI provides this means of capital availability by importing capital into the host nation, through which the MNCs create wealth and add value. This wealth, earned by productive employees, enters the domestic market and creates an accumulation of capital within the host nation. MNCs benefit from this capital exchange through the value increase of the product and the profit gained through the productive labor of the host nation (Smith, Cannan, Lerner 1937).

FDI is a long practiced method of attracting capital into a nation. Ireland, specifically, uses major tax subsidies to entice foreign firms to invest in the nation's domestic marketplace. Governments create these incentives because, in most cases and when properly implemented, FDI will benefit the country's domestic market and economy through the increase in capital availability, productivity spillovers, and increased value-added. Much theoretical and experimental work has been completed on FDI in the manufacturing industry (Balassa 1979, 1986, Hayes and Wheelwright 1984). This industry is one of the largest recipients of unilateral foreign investment throughout the world, and is of special relevance in Ireland, where the manufacturing sector accounts for the largest amount of value-added per firm of any other industry (IDA Ireland 2016, Enright et al. 2014).

The world economy, on average, has heavily relied on FDI as an economic catalyst. In 2007, the world reliance on FDI as a percentage of net income had reached a peak of 5.2%. From 2007 to 2009, the main years of the global recession, however, this number dropped dramatically to 2.2%. Since 2009 (until the most readily available data in 2014), FDI net inflows have fallen another 0.2% to 2% (The World Bank Group 2014). The decline of the world reliance on FDI is most likely a result of the dramatic impact this interconnectedness had during the 2008 financial crisis. As a result, this fall in FDI has disproportionately affected OECD countries (member states in the Organization for Economic Co-Operation and Development) (The World Bank Group 2014).

Ireland, however, has performed exponentially better than the world average, and subsequently the OECD average, as well. Between 2007 and 2009, the nation actually saw an increase of 0.5% in FDI. Since 2009, Ireland's FDI net inflows have a percentage of the nation's total GDP increased from 11.7% to 34.6% in 2014 (The World Bank 2014). This rise highlights the nation’s increasing reliance on foreign investments as an economic stimulus. The reasons behind this increased FDI and the benefits to the source company and the host country will be explained in Chapter II. Figure 1.1 demonstrates the disparity between Ireland’s FDI net inflows as a percentage of total GDP compared to the world average.

Figure 1.1 (The World Bank Group 2014)

Investors in the manufacturing industry seek out locational opportunities for FDI because oftentimes the comparative advantages of the host country will encourage superior returns for the company. Investors, therefore, seek out FDI in order to increase their capital returns and the overall health of the company. Unilateral foreign direct investment can only succeed, however, when the benefits to the host country exceed the costs of introducing foreign firms into the domestic market. Benefits to the host country include productivity spillovers, increased competition within and between the domestic industries, and the development of human and physical capital (Rodriguez-Clare 1996, Henry 2001, Haskel et al. 2007).

FDI in manufacturing can take two forms: Firms that wish to enter the local market, and those that wish to use the nation as an intermediary for exportation. The competition between firms in a domestic market requires different advantages than the competition between a multinational corporation (MNC) and a domestic exporting firm (Lewis 2011). American FDI in Ireland funds exportation, using the nation as a base for manufacturing and development, but not as the main consumer base. Companies may want to engage in FDI as a means of manufacturing exports for the global economy, a situation in which the main source of value-added and the final product value are delegated to different economies (Gereffi et al. 2001).

Ireland is the main recipient of American FDI in Europe- and the fifth largest in the world, after the Netherlands, the United Kingdom, Luxembourg, and Canada (OECD 2016). Correspondingly; the US is Ireland's largest source of FDI ("US-Ireland Business 2016", 2016, Enright et al. 2014). The close economic relationship of the two nations has created a strong mirror reflection of capital accumulation. According to a report by the American Chamber of Commerce Ireland, the US invests over $80 billion a year in Ireland and the 700 American firms located in the small nation employ over 140,000 people (or 6.5% of the Irish labor market) ("US-Ireland Business 2016", 2016, Eurostat 2016, CSO 2015). In Ireland, a nation with a population of less than 5 million, this foreign employment has a substantial impact. In this close relationship, capital from the parent companies in America is imported into Ireland, transformed into wealth for the host nation through employment, research and development, productivity spillovers etc.… In line with Adam Smith's theory of the production of capital, the multiplier effect allows the host country to gain economic advantage through this newly introduced capital (Enright et al. 2014, Driffield and Taylor 2000).

The multiplier effect concerns the indirect impact of investment directly injected into the economy. When MNCs stimulate the labor market with greater choices and higher wages, those employees have larger disposable incomes, which in turn trigger greater economic growth throughout the domestic firms, through no expense of the host country's indigenous enterprises (Driffield and Taylor 2000).

The output multiplier of an economy analyzes the effect of demand in FDI with any additional benefits (or detriments) in the rest of the economy. In the case of Ireland, the FDI output multiplier is 1.2 (Ireland, Department of Finance Analysis). Therefore, for every €1 million increase in demand in the multinational sector, an additional €200,000 in capital is generated elsewhere in the economy. In addition to the effect of capital availability, FDI also benefits a nation through productivity spillovers from MNCs into the domestic sector.

Productivity spillovers from multinational firms to domestic firms create an economic justification for host country incentives (Rodriguez-Clare 1996, Haskel et al. 2007). These spillovers include the introduction of new knowledge assets into the host country (such as intellectual property, technology, etc.). This was seen in a case conducted by Rodriguez-Care (1996) in which FDI increases the domestic firm's access to specialized inputs. This case also suggests that the domestic firms can informally gain access to new knowledge through contacts, trade shows, tech support, etc. This increase in knowledge between competitors is a large factor in the productivity spillover arguments for FDI. Haskel et al. (2007) similarly conducted a study on manufacturing in the United Kingdom and the productivity spillover effects created with the introduction of FDI into the industry. This study is of particular relevance to this paper because of the economic similarities between the UK and Ireland. The researchers chose the UK as a case study because "[the country is] a high-income country that is among the top five R&D producers in the world… [and] in recent decades, the United Kingdom has seen substantial inflows of FDI" (3). Ireland mirrors the UK in both of these respects, as a leading R&D producer and as the recipient of a recent influx of foreign investment. After analyzing the effects of the introduction of FDI into the UK manufacturing industry, Haskel et al. concluded a significantly positive correlation between the total factor productivity of the domestic plant and the multinational share of employment within the same industry. Within this industry, productivity in domestic-owned firms increased with the expansion of employment in foreign-owned firms. They also note, however, that the estimated values of the productivity spillovers are often times much less than the per-job incentives that governments offer. The productivity spillovers alone, therefore, do not justify the tax subsidies offered by the government (Haskel et al. 2007). This added benefit can be found in the monetary implications of FDI, discussed further in this chapter. As more MNCs enter the marketplace, the productivity of the corresponding domestic firms increases, creating an added incentive for nations to host foreign investment (Haskel et al. 2007, Rodriguez-Clare 1996).

Research and development (R&D) represents a large source of FDI throughout the world. Much literature has elaborated on the idea that FDI involves the exploitation of firm-specific capabilities within the host country. This explanation of firms advantaging off of existing comparative advantages is especially prevalent in the world of R&D. This type of relationship works bilaterally. Foreign firms introduce new technology and encourage the development of R&D within domestic firms, while local R&D facilities can aid a foreign firm in adapting the product to be more applicable for development in the host market (Kuermmerle 1999). The advantages of an R&D rich nation encourage governments to seek out this source of FDI. In Ireland, FDI is critical to meeting certain EU projections requiring the nation to devote at least 2% of its GDP to R&D (Enright et al. 2014). MNCs invested €1.4 billion into R&D in 2012, or 0.85% of the nation’s GDP. Contrarily, the domestic sector’s investment accounted for only 0.35% of GDP (Enright et al. 2014, Eurostat).

The United States is the single largest investor of R&D in the world, with an average of $473 billion spent annually. In the past fifteen years, R&D outlays by US affiliates in Ireland more than doubled to its current position at over $1.5 billion (Taylor 2015, Ireland, Department of Finance 2014). The Irish government seeks out FDI in R&D because the parent companies of these firms often devote more of their resources into this sector than their domestic counterparts and so the host nation receives an economic advantage in their GDP as well as a human capital advantage.

Ireland is not the only nation which seeks out foreign investors to contribute to R&D. Research and development accounts for, on average, 2.2% of the total world GDP (The World Bank Group 2014). This is higher for OECD countries, where the average is 2.6% of GDP (World Bank 2014). Foreign subsidiaries contribute around 33% of the total business expenditure within this industry in most European nations (Guimon 2013). R&D is much less economically dynamic than FDI, as a whole, as can be seen in the lack of volume fluctuation during the 2008 recession. Foreign investment in research and development had increased a marginal 0.2% between 2007 and 2012 (The World Bank Group 2014). R&D has remained fairly constant throughout the recession, while FDI fluctuated greatly across many markets. Guimon (2013) explains that R&D-intensive MNCs are not limited as solely innovation contributors, but extend human capital development significantly through their R&D efforts. The introduction of R&D into a host country can stem the flow of a brain drain, and attract new innovative labor to the host country's borders (Guimon 2013). These benefits of R&D help to encourage the acceptance and incentivizing by governments to MNCs.

When these research-oriented MNCs are introduced into the host country, demand for labor increases. With this demand, wages increase and the development of human capital is encouraged as a result. Globerman et al. (2003) analyzed the indirect benefits of FDI on domestic industries in the increased labor migration between countries that the foreign firm encourages. This human capital investment by the foreign firms indirectly benefits their domestic counterparts, without any direct expense by the latter (Globerman et al. 2003).

Among the benefits of foreign investment, and a stimulus for greater productivity spillovers, is the increased competition which results from a more heterogeneous marketplace. This effect was observed in a study conducted by Globerman (1979) in which the effects of American FDI on the Canadian manufacturing industry were found to be net positive. This study found that FDI increases productivity in domestic industries by increasing competition in both labor and production throughout the economy. This finding was echoed by Görg et al. (2003) who explain that this increased competition can be produced, even in situations of unequal resources, "Even if [the domestic firms] are unable to imitate the MNE's technology/production processes, they are under pressure to use existing technology more efficiently, yielding productivity gains" (4). The stimulation of this marketplace competition can motivate the adoption of new technologies by the existing firms and so propel the domestic industry forward (Görg et al. 2003, Branstetter 2000).

Theoretical Approaches to Foreign Direct Investment

Three different theoretical approaches explain the significance of FDI between nations: the neoclassical theory, the market imperfections theory, and the global commodity chain. The former two theories mainly justify FDI for a domestic market while the latter, global commodity chains, explains the relevance of foreign investment in export-oriented FDI. As stated, Irish manufacturing deals primarily in export-oriented value chains. Therefore, this theory, above all others, reveals the true significance of FDI into the Irish industry.

Different theories analyze the relationship between FDI and competition to contrasting conclusions. The importance of competition is explored in a case-study by Hunt and Morgan (1995), in which the researchers analyze the neoclassical theory of perfect competition and how this contributes to the comparative advantage theory of competition

(Hunt and Morgan 1995). The researchers discovered that, "economies premised on competing firms are superior to economies premised on cooperating firms in terms of the quantity, quality, and innovativeness of goods and services" (13). Using this neoclassical theory, competition is vital to a thriving economy. MNCs would be less competitive in terms of quantity, quality, and innovativeness because more resources would have to be devoted to overcoming transaction costs, which domestic firms would not have to face, theoretically. Many of these transaction costs are neutralized in the case of FDI between culturally similar nations, such as the US and Ireland (Shenkar 2001).

While this neoclassical theory promotes competition within industries, it negates the possibility of successful direct investment, based on a lack of comparative advantage for foreign firms. Calvet explains that in a (fictitious) world of perfect competition, foreign direct investment would cease to exist and international trade would be the only plausible form of multinational relationships (Calvet 1981). In the neoclassical theory, the added transaction costs introduced during foreign investment would not be off-set by any added benefit, thereby eliminating the introduction of any MNCs. Therefore, this paper presupposes the market imperfections theory.

The market imperfections theory supports the idea of inexact competition between different nations. This is often the result of government intervention, such as trade barriers or tax incentives, as is the case in Ireland. The imperfect market allows for the entrance of MNCs into a domestic industry, because the host country can therefore offer differing comparative advantages that might compensate for the added transaction costs of operating outside the borders of their parent company's nation. Market imperfections can be classified in terms of their effect on FDI. Indirect government intervention includes monetary policies, such as money supply, foreign exchange rates, interest rates, etc. Governments can impose direct restrictions/ incentives on FDI, as well, such as capital controls, transfer pricing policies, and labor relation policies (Brewer 1993). The policy involvement of the government, in this case acting as a third party, adds another dimension to FDI, along with a myriad of new incentives and/or barriers.

According to Welch et al. (2008) and Hennart (1982), market imperfections are fundamental components of markets. MNCs must be introduced in order to attempt to reach market equilibrium, in which supply and demand are equal (Calvet 1981). This increased competition promoted by the introduction of foreign firms into a domestic marketplace is vital for the development of new innovations and ideas. And so, FDI creates an environment of highly competitive firms (Welch et al. 2008, Hennart 1982).

With the expanse of globalization, global value chains (GVC) have become increasingly relevant. Policymakers are more inclined to believe that GVCs are the key to economic growth because of the pace of technological change, intensity of international competitions, and ongoing interpenetration of productive activity (Gereffi 2001). Because of this growing significance, policy among most international markets has begun to focus on a value-chain perspective. Political emphasis onto GVC can be found through firm upgrading. Upgrading involves insertion into GVCs in order to maximize value-added. This can include product, process, and intra- and inter-chain upgrading, depending on the economy involved and the industry in which the firms wish to penetrate. The type of upgrading largely affects the degree of increased unit values and to who this value-added is attributed.

These chains include all involved in the development of the product, and signify the different stages, often in differing nations, in which value is added to a product. They emphasize the value of each activity of production from conception to market and finally to disposal. Each distinct phase within the GVC has a unique opportunity for value-added. The importance of analyzing the GVC is finding which activities are performed within the host country and what the implications of the completion of this phase are on the GVA (Gross Value Added) of the nation.

The importance of GVC increases with the growing globalization of the modern world. As globalization increases, the interconnectedness of the world economy tightens. In a study of global value chains by Gereffi et al., researchers discovered that:

> Most recently, the projection of national production systems across borders through direct investment and international subcontracting has deepened the interdependence and functional integration of the world economy (2001)

This argument relies on the idea that increased globalization has contributed to the sensitivity of one nation's economy to their neighbors' markets. While internationalization is not a relatively new concept, the recent rise in FDI and foreign development has made for a much more intimate relationship between the economic welfare of two nations than has been noted in past years. This explains the detrimental effect of FDI on many small, open economies (like Ireland) during the years of the recession and the communal reluctance to reinvest in the immediate years following.

The OECD explains the importance of cultural compatibility within global value chains for the success of FDI. This emphasis on culture comes from the large role human capital plays in these GVCs:

> Numerous studies have shown that the quality and quantity of adequately trained human capital is the key driver of global value chain participation. Education, language skills, cultural affinity, and internationally recognized qualifications are important determinants (OECD 2016).

This reliance on human capital as a stimulus of GVC provides a fresh perspective on the importance of cultural affinity. In the case of the US and Ireland, the strong cultural compatibility between the two nations encourages the global commodity chain theory of competitive advantage over the neoclassical or market imperfections. These latter two theories explain FDI within the domestic market, but do not emphasize the importance of human capital and cultural affinity necessary within the export-oriented manufacturing industry within Ireland.

In this rapidly globalizing world, foreign involvement does not always have a positive impact on a nation's economy. In some instances, FDI can be detrimental to the host country's balance of payments and marketplace. These cases, however, are often the result of some added dimension, such as political activities, economic turmoil, or incompetent business strategies. Regarding Ireland's FDI infrastructure, the domestic industry is much more readily equipped to absorb foreign investment than some of these failed examples as a result of proper implementation, low government corruption, and increased value-added (Berry 2001).

Traditionally, nations offer a comparative advantage for foreign investment through labor cost differences and natural resources (Krugman 1987). This method of attracting source companies has a high success rate in developing nations, where the resources are less regulated and the wage costs are considerably lower. This leads to an increase in the value of the product, from inception to completion, and a positive impact on the GVC. In developed nations, however, these two factors generally do not apply as main comparative advantages in attracting FDI (Balassa 1965). Between two developed nations, the gaps between technology, wage, and resources is generally much smaller, and so one country may not have a distinct comparative advantage over its peers. In this scenario, cultural advantage is an influencing factor in determining the location of FDI.

Comparative Advantages and FDI

One of the largest influencing factors in a nation's comparative advantage is its value-added chain. This chain evaluates the added financial benefit when all the inputs provided by the MNC are then transformed through marketing, labor, and manufactured processes. In the global production chain, an intermediary nation that absorbs resources and exports them with value-added will benefit from this system by increasing its GVA and thus its estimation of the nation's GDP (Enright et al. 2014, Gereffi 2001).

GVA measures the contribution of each sector to the economy and only differs from GDP in its exclusion of tax and subsidies. MNCs contribute to GVA more than a domestic company could, through the introduction of new inputs and capital and the opportunity for the host country to claim the added value in its own financial reports. The relevance of GVA, especially in the manufacturing industry, highlights the comparative advantage of a multinational entering a domestic marketplace (Balassa 1986). Within Ireland's economy, FDI influence on GVA is substantial, where the foreign-owned sector accounted for over 25% (€36.3 billion) of the nation's total Gross Value Added in 2011 (Enright et al. 2014).

Manufacturing, as a global industry, presents a strong comparative advantage as a foreign firm-populated industry. Previous work conducted on the subject of comparative advantage in manufactured goods found that this industry aids economic development through the accumulation of capital, both physical and human (Balassa 1979, 1986).

Manufacturing provides significant comparative advantages for developing nations, where the wage is lower, national resources are easily accessible, and technological advances of the domestic firms cannot compete with that of their foreign counterparts. In Ireland's case, however, these advantages do not apply as sole incentives. Ireland offers comparable wage opportunities to other developed nations, natural resources are not a significant component of their foreign manufacturing industry, and the domestic firms have analogous technology. The comparative advantage of this nation for American FDI lies in its tax structure, and importantly, its culture (to be explained in Chapter III).

As noted, cultural compatibility is a source of relative competitive advantage between different investment partners. More specifically, the reduction of cultural distance between a host and source country will reduce transaction costs and encourage the success of MNCs (Shenkar 2001, Tang 2012). The relational advantage between two culturally similar nations, in some cases, can override other facts in determining location, mode of entry, or forecasting the success of the MNC. In the relationship between Ireland and the United States, cultural affinity is a prominent competitive advantage influencing the success of American MNCs in Ireland. The reduction of transaction costs, including the lowering of risk, loosening of control, and increase in knowledge transfers, supports the concept of culture as a competitive advantage in FDI.

One of the largest decisions faced by companies considering FDI involves finding a location to source the firm. The comparative advantages of different nations largely influence this decision. This question is increasingly relevant in the world economy, as more and more nations are opening their borders to foreign investment.

Importantly, the decision of where to source FDI is largely dependent on a nation's relative cross-national differences. Brewer explains this phenomenon:

> The policies of individual national governments do not affect market imperfections and FDI in isolation from one another; rather the effects of one government's policies are dependent on their features relative to another government's policies (1993).

One nation's subsidies for foreign firms over domestic ones will not increase inward FDI if peer nations offer greater subsidies for the same industries. Brewer suggests that government policies be analyzed in a comparative cross-national perspective, in order to determine their maximum effectiveness. Ireland, when included in such an analysis, proves to have far more favorable FDI incentives than their competitor nations (World Bank 2014). The Irish manufacturing industry has some of the best cultural and monetary incentives of their economic peers, and has regularly received much more foreign investment within most industries (IDA Ireland 2016). This form of relative competitive advantage is functional only in the market imperfections theory. This theory supports culture as a competitive advantage by invoking the importance of a relational distinction between comparative advantages. Different nations' may offer varying comparative advantages, but these advantages are only relevant in their relationship with the source company.

Conclusion

The aforementioned benefits, both to the host country and the foreign affiliate, are amplified in situations of a developing nation receiving investment from a developed country. Productivity spillovers are greater when there is already a large gap between the productivity and knowledge of the domestic and foreign firms. This gap is admittedly much smaller between two already developed nations, albeit still existent. As discussed above, many of the location decisions can be made based on natural resources, wage differentials, or technology. Ireland, however, does not offer a substantial comparative advantage in these three areas and as a developed nation generally offers a smaller comparative advantage in productivity spillovers.

While every component of FDI and comparative advantage mentioned in this chapter pertains to Ireland, on a broad scale, the different factors do not offer a comprehensive justification for the success, and ongoing investment, of American MNCs in Ireland. This paper will outline, in the succeeding chapters, the fourth advantage of which Ireland can boast: culture. The unilateral relationship between American FDI and the Irish nation depends on many factors, including the added dimension of cultural similarity.

Chapter 2: Foreign Direct Investment in Ireland

One of the most defining features of the Irish economy is the nation's dependence on foreign direct investment (FDI). Ever since Ireland opened its borders to multinational investment in 1958, the country's economy has grown and wavered with a large sensitivity to the fluctuations of its source companies (Bielenberg and Ryan 2012). Before the introduction of multinational corporations (MNC) into Ireland in the 1950s, however, the country was similarly dependent on a single nation: the United Kingdom. The UK was Ireland's largest trade partner for much of the young nation's history until Ireland began to accept inward FDI (Bielenberg and Ryan 2012). The introduction of FDI allowed the small island to finally decouple itself from the larger nation's influence (Barry and Bradley 1997). In the next five decades, FDI into Ireland expanded and the nation has continued to develop incentives to attract new MNCs every year (IDA Ireland 2016). Ireland is a relatively small nation, both economically and within its population. This island has roughly 4.6 million current residents, compared to the US population of 319 million (The World Bank 2014). FDI in Ireland provides many advantages and disadvantages for the small nation. Because of this form of investment's large importance in the nation, the Irish government uses various strategies to attract FDI into its borders. Finally, foreign firms have a relatively higher productivity than their domestic counterparts. The Irish culture influences the strategies of the government and the productivity of MNCs in Ireland.

Role of Foreign Direct Investment in the Irish Economy

The macroeconomic size of the foreign-owned sector in Ireland exceeds that of every other host nation or region in the world, excepting Hong Kong Sar and the Republic of Congo (The World Bank 2016). At 34%, FDI net inflows accounts for a larger share of the nation's GDP than any other single contributor and is more than seventeen times higher than the world average for FDI as a percentage of GDP (The World Bank 2016)

The nation's large dependence on FDI is expressed in most sectors, but none more so than the manufacturing industry (Enright et al. 2014, IDA Ireland 2016). Only 2% of enterprises in Ireland are foreign-owned, but MNCs account for 22% of employment across all sectors. In the manufacturing industry, these numbers are 9% and almost 50%, respectively (Enright et al. 2014, Eurostat). The reason for the large share of employment in foreign-owned firms over domestic ones is the relative overall size of the former (Enright et al. 2014, CSO 2016, Department of Finance Analysis 2014). Growth of foreign-firms in the manufacturing industry within Ireland has increased since 2010, after a decline in employment during the 2008 recession, and the re-building period thereafter. Despite this period of relative economic instability since 2004, foreign-owned firms harbored an average increase of 2% in full-time workers. Domestic firms, however, experienced a 1% decline over the same time period. This incongruence is due to the fact that foreign-firms are generally larger employers, and provide greater incentives for labor (higher wages than their domestic counterparts, greater opportunity for growth, etc.) (Barry and Bradley 1997).

The small, open economy of Ireland creates an encouraging environment for foreign investment (IDA Ireland 2016, Barry and Bradley 1997). The openness of Ireland's economic borders means that it is involved in international financial transactions and exchanges goods and services with other nations. The size of the economy results in a lack of influence in the economies of other nations. Contrarily, the United States has a large, open economy so it too has a high exchange rate of good and services but, unlike Ireland, has a great amount of influence in the world economy. As Barry and Bradley (1997) explain, "Ireland's size and its comprehensive integration into the wider world economy make it an almost perfect textbook example of a small, open economy" (1807). The resulting implications of such an economy, explains the researchers, is the inclusive nature of MNCs in the Irish industry and the export-oriented nature of the entire Irish manufacturing industry, foreign and domestic (1808).

The involvement of foreign-owned enterprises in Ireland helps to define the nation's small, open economy and close relationship with the international market. As the eighth most economically free nation in the world (three spots above the United States), Ireland provides some of the greatest FDI incentives of its developed peers, according to a study joint conducted by the Heritage Foundation and the Wall Street Journal. ("2016 Index of Economic Freedom" 2016). These incentives include a low corporate tax rate, a surplus of knowledge workers, and, to be discussed in Chapter III, a cultural congruence to the United States, the nation's largest foreign investment source (IDA Ireland 2016, Enright et al. 2014). Ireland spends an immense amount of resources attracting MNCs to re-domicile to Ireland after the large outflow of FDI during the world recession. Ireland's economy has grown largely dependent on the employment opportunities and the positive impact on the nation's balance of payments that FDI creates. An effect of this new balance of payments is a €65 million increase in Ireland's EU budget contribution per year.

The significant presence of FDI has created a substantial impact on the nation's balance of payments (Enright et al. 2014). Ireland's balance of payments, the measure of the Irish economy's transactions with the rest of the world, has been improved by the presence of MNCs. This is largely a result of the high profitability of foreign-owned firms. Because foreign-firms introduce products at the high-profit-margin stage of the lifestyle, the value of the subsequent exports of goods and services is much higher than the corresponding imports (Enright et al. 2014, Brennan and Verma 2013). The re-domiciling of many MNCs to Ireland, after their retreat in 2008, has also contributed to this positive effect. As a result of this re-location, corporate income is recorded as an income inflow on the Irish account. This increases the account balance, resulting in a positive trade balance, and an increase of about 4% of GDP (CSO 2016).

In addition to these direct effects of the multinational sector on the Irish economy, Ireland incurs many indirect benefits as a result of increased FDI. The multiplier approach, or input-output model of the economy, can define these indirect effects in a quantifiable and comparative way (Enright et al. 2014). By analyzing multipliers, the difference between Ireland's output before and after consideration of the foreign-dominated sector can be determined. Enright et al. of Ireland's Department of Finance (2014) constructed output multipliers for both the foreign-dominated sectors and the 'rest of the economy', or those sectors dominated by indigenous firms. In all foreign-dominated sectors, the output multiplier was greater than one, indicating that for everyone €1 million increase in final demand for these multinational sectors, an additional sum of output is generated elsewhere in the economy. On average, the foreign-dominated sectors had an output multiplier of 1.23 (Enright et al. 2014, CSO 2016). For every €1 million in final demand, on average an additional €230,000 is generated in output elsewhere in the economy (CSO 2016).

This multiplier effect is especially prevalent in the consideration of employment impacts of FDI. Compared to the rest of the economy, the foreign-dominated sector has a lower output multiplier (1.4 compared to the MNC-dominated 1.2). Thus, for every €1 million increase in final demand, an additional €200,000 in output is generated. While this is net positive, it is far less than the additional €400,000 generated by the rest of the economy (CSO 2016). Another indicator of the employment impacts of the foreign-dominated sector is generated through the employment effect. This effect calculates the impact of economy-wide employment resulting from a change in final demand. Here, the disparity is much greater with the foreign-dominated sector having an employment effect of 3, and the rest of the economy at a 10. In other words, for every additional €1 million generated in final demand by MNCs, 3 full-time jobs are created in the Irish economy, (and likewise for the rest of the economy, ten full-time jobs are created.) In analyzing the multipliers and their effects, the researchers hypothesized that the relative lower output and employment multipliers of the multinational sector is a result of the large capital intensity, productivity, and import content of this sector (Enright et al. 2014).

Arguments against Foreign Direct Investment in Ireland

Despite these outlined advantages of FDI in Ireland, many scholars still warn against an overdependence on foreign investment (Barry and Bradley 1997, Blomstrom and Kokko 2003, Šimelytė and Antanavičienė 2013). During the years of the Celtic Tiger (c. 1993-2007), Ireland's economic boom, FDI facilitated unforeseen economic growth (Dorgan 2016). Once the financial crash in 2008 created an aura of uncertainty, MNCs began to withdraw from Ireland, further pummeling the small nation's economy (Brazys and Regan 2015). Despite the negative results of Ireland's past overdependence on foreign investment, many important scholars still support the introduction and expansion of FDI. In fact most arguments, such as those provided by IDA Ireland (2016) and Enright et al. (2014), of the Department of Finance, in particular, favor the continued acceptance of MNCs, for many of the aforementioned reasons. Others however, such as Barry and Bradley (1997), Blomstrom and Kokko (2003), and Šimelytė and Antanavičienė (2013) warn of the adverse effects of FDI and caution for a possible stem to the quickening stream of inward investment.

One argument against FDI in Ireland follows the concern that MNCs may divert market share from domestic firms and thereby lower the profits of the latter (Blomstrom and Kokko 2003). Barry and Bradley offer a few reasons why this reason to deter FDI is not applicable to the Irish economy. First and foremost, the researchers argue that because MNCs based in Ireland do not serve the home market, rather they act as an intermediary for products, the "potential profits in domestic sectors are insulated from foreign competition" (Barry and Bradley 1997). The export-oriented nature of MNCs in Ireland removes the foreign-owned firms' products from the domestic competitive marketplace. Others argue that the heavily incentivizing tax rate reduces the profit stream of the nation. When governments engage in the tax competition required to attract FDI, profits that would have gone to the host country are invariably lost to subsidies and tax cuts (Blomstrom and Kokko 2003).

Similar arguments concern the question of the Dutch disease and the decline of employment as a result of FDI (Cordon 1984). Barry and Bradley admit that FDI inflows strengthen the Euro exchange rate, which weakens inflation. Following many traditional economic theories, this reduction in inflation could raise unemployment, but evidence of Celtic Tiger-era Ireland does not support this relationship in the Irish manufacturing sector (Hick 2014). In line with this argument, is the fear of unbalancing wage developments (Barry and Bradley 1997). Because of the comparatively high productivity of MNCs in the manufacturing sector, the resulting higher wages could create similar wage demands in the domestic sector. The simultaneous growth of wages in both foreign and domestic firms, when only the former experiences increasing productivity, could lead to down-sizing or the potential closure of domestic firms due to rising labor costs. Aw and Hwang (1995) conducted a study on this phenomenon in the manufacturing industry, in which net output per head of the modern sector grew twice as quickly as that of the traditional sector. Wage developments between the two, however, grew with near identical increases (Aw and Hwang 1995).

Finally, many fear a repetition of the past (Šimelytė and Antanavičienė 2013). With a steadily growing dependence on MNCs, the Irish economy once again, becomes susceptible to the economic tides of their source countries. Barry and Bradley predicted this in 1997, cautioning that an increase in FDI in Ireland could lead to a destabilization of the economy.

They exhibited foresight for the crash that would occur a decade later, "The perceived danger is that external circumstances could change in such a way that the economy over a very short period of time loses its attractiveness as a base for multinational investment" (1806). After the quick and economically devastating withdrawal of MNCs from Ireland in 2008, some scholars are urging a system of stronger Irish-based manufacturing and a more cautious acceptance of FDI (Šimelytė and Antanavičienė 2013, Ruane and Buckley 2006)

Despite the many scholars who provide valid arguments against the current Irish system of FDI acceptance, overwhelming support still encourages the increase in FDI, especially in the manufacturing sector. Ireland provides a near-perfect example of FDI attraction by a developed nation, and the country has only increased its willingness to accept MNCs in recent years. The Department of Finance has described the positive results of Ireland's dependence on foreign investment, and what this dependence may mean for the state in the future (Enright et al. 2014) The Irish case becomes more narrow, however, when considering the nation's relationship specifically with the United States. The following two chapters offer a hypothesis for why this special economic relationship has been formed, above all others.

Comparative Advantages in the Irish Case

In the decision of MNCs of where to locate, Ireland offers substantial comparative advantages. Each year, Ireland's industrial development authority, IDA Ireland, releases a comprehensive document detailing the benefits of sourcing an MNC to Ireland. In 2016, the document highlighted the nation's business-friendly corporate tax rate, Ireland's competitive talent, among other factors (IDA Ireland 2016). Ireland's comparative advantages largely affect the nation's export-oriented FDI industry. The majority of multinational corporations in the Irish manufacturing industry add value with the intention of exporting these products to various other marketplaces. This is in contrast to MNCs who may import products for the nation's internal market, in which case the parent company considers different comparative advantages.

Ireland's corporate tax rate is almost half that of the European Union average (12.5% to the EU's 22.3%) and well below the OECD average of 24.86%. This corporation tax rate is specifically aimed at attracting FDI, and has for years encouraged wider economic policy in Ireland (Enright et al.). Simply stated, MNCs are more likely to move to nations with a low tax rate, all else equal, than one with a high rate. Devereux et al. studied the intergovernmental tax competition behind this method of attracting FDI. The researchers developed a model in which MNCs can determine their capital stock as a result of an effective marginal tax rate (EMTR). After studying 21 OECD countries, they determined that countries respond to one another's lowering of the EMTR, in order to encourage MNCs to bring capital to their respective nations (Devereux et al. 2008). These motives are well validated in a similar study by Bénassy-Quéré et al. (2004) which determined that tax differentials are a significant factor in location decisions for FDI. The comparative advantage of Ireland's tax rate can be credited with encouraging many of Ireland's largest MNCs (Enright et al. 2014), and has consistently remained at 12.5%, while other nations' rates have fluctuated with the changing world economy (Bénassy-Quéré et al. 2004)

IDA Ireland also highlights the nation's competitive labor force. According to the IMD World Competitiveness Report, Ireland excels above all others in flexibility and adaptability of the workforce, is the fourth most motivated labor force in the world, and is number one for availability of senior management (IMD World Competitiveness Report). The search for a skilled and reliable labor force is one of the largest transaction costs for MNCs (Blomstrom and Kokko 2003). IDA Ireland, therefore, boasts this component as an added benefit of sourcing to their nation. As a large proportion of foreign sector employment in Irish manufacturing is in high-technology sectors, skill levels in MNCs are often greater than those in the domestic sector (Barry and Bradley 1997). These greater skill levels, however, coincide with greater wage levels. Ireland workers earn an average of $38 per hour in Irish-owned manufacturing firms and $45 per hour in foreign-owned firms (CSO 2016, Enright et al. 2014). These wage levels are high compared to the wages paid to American manufacturing workers of $35 per hour (BLS 2016).

Ireland's education system also provides many advantages for MNCs' employee search. The Irish education system is one of the ten best in the world (IMD World Competitiveness Report), which decreases the cost of training and development for the parent company and reduces the reliance on relocating management into the host country. The nation is also the only English-speaking member of the Eurozone (IDA Ireland 2016), which greatly reduces transaction costs and increases the availability for the parent company to easily confer with management within Ireland.

These reductions in cost help to offset the high price of investment in Ireland. The higher costs of wage, rent, and transportation all increase the transaction costs of investment into Ireland. IDA Ireland insists that these extra costs are negated by the positive benefits offered by the Irish workforce, education system and tax rate (IDA Ireland 2016).

An important element of Ireland's competitive workforce, in the case of American FDI, is the cultural similarities between Ireland and the United States. The compatibility of the Irish and American culture reduces transaction costs through the loosening of control, the increase in knowledge transfers, and the reduction of risk, especially in comparison to some of the United States' culturally dissimilar trade partners (e.g. China or France). This competitive advantage of the Irish workforce is further elaborated in Chapter 3.

In a case study on trade in various sectors in Ireland, Barry and Bradley (1997) provide a counterargument that "traditional measures of revealed comparative advantage are a very poor predictor of subsequent sectoral developments" (1801). The researchers indicate a trend of FDI inflows entering sectors for which no traditional advantage is prominent (i.e. technology, natural resources, or wage differentials). They argue that influence in export-oriented FDI relies on returns-to-scale, rather than traditional forms of comparative advantage. In the Irish experience from which the researchers write, they emphasize that FDI manufacturing inflows are primarily directed towards these sectors with increasing returns, in which outputs increase at a faster rate than inputs. The authors demonstrate that approximately 63% of MNC employment in Irish manufacturing is located in sectors with increasing-returns-to-scale (IRS), compared to just over 23% for domestic employment (Barry and Bradley 1997).

As discussed in Chapter 1, productivity of a foreign-owned firm can often have a net positive impact on the productivity of domestic firms. This is especially true in Ireland where foreign-firms are characterized by greater productivity, greater profitability, and higher compensation per employee than the indigenous-owned sector (Enright et al. 2014). These factors all contribute to the greater value added per worker of foreign-owned firms, a feature or particular relevance in the manufacturing sector. Compared to all sectors in the Irish economy, the foreign-owned firms in the manufacturing sector are much more productive than the domestic firms because manufacturing activities involve higher-value added export activity (Enright et al. 2014). Domestic firms export considerably less than their foreign counterparts, because the former, by definition, engages in far fewer international activities in the global value chain. Foreign-owned manufacturing is defined by capital intensive activities during the initial stages of the product life cycle, and in turn sustain high profit margins (Brennan and Verma 2013). This is especially true of developed nations, such as Ireland or the US, wherein the higher wages ensure greater quantifiable value added per worker.

This difference in productivity and value-added per worker contributes to the large disparity in gross value added (GVA) contributions of foreign- versus domestic-owned firms. As a percentage of Ireland's total GVA in 2011, MNCs contributed more than one-quarter (€36.3 billion) and also contributed more than one-half (48.9 billion) of GVA generated specifically in the business economy. Most impressively of all, foreign-owned manufacturing firms accounted for 64.3% of all GVA in 2014 (CSO 2016). GVA, as noted, is an indication of GDP measurement. Among other factors, the foreign-owned firms' contribution to Ireland's increased GVA, especially in the post-recession years, has facilitated fast GDP growth for the nation (Enright et al. 2014). In fact, as the EU nation with the largest percentage of FDI as a factor of its GDP, Ireland has had greater GDP growth than both the world and EU averages (The World Bank 2016). This is of particular significance, because Ireland's GDP far exceeds its GNP, a situation almost unique to the nation (Enright et al. 2014, CSO 2016).

The large disparity between Ireland's GDP and GNP differentiates the small nation from most other advanced economies. This significant phenomenon is largely the result of the nation's large multinational sector. Because of the high profitability of foreign-owned firms, the returns on inward investment within Ireland are much greater than the returns on Irish investment throughout the world (The World Bank 2014). Ireland's real GDP of €181.1 billion far exceeds its GNP of €159.44 billion.

As a member of the European Union, Ireland is obliged to meet certain economic criteria. One of the largest targets of Europe 2020, the EU's ten year strategy for growth, is a communal investment of 3% of the EU's total GDP towards R&D and innovation. This goal requires Ireland to devote 2% of its GDP towards innovation by 2020 (Eurostat 2016). The nation's progress towards this goal, along with the implication of this target, could not be completed without the help of FDI. In 2012, Ireland invested 1.7% of its GDP towards R&D,

half a percentage point greater than the 1.2% invested in 2003 (The World Bank 2016). Three different forms contribute to overall R&D in an economy: business expenditure on R&D (BERD), higher level (HERD), and government (GvERD) (Grilliches 2006). The multinational sector increases Ireland's overall R&D through BERD contributions. Of the 0.5% increase in R&D between 2003 and 2012, 80% of this came from increases in BERD, and over 70% of BERD in Ireland is contributed by MNCs (Eurostat 2016). The Department of Finance has acknowledged this contribution to R&D growth in their 2014 policy paper, "Overall, the foreign-owned sector is the key contributor to private sector R&D expenditure in Ireland" (Enright et al. 2014). Figure 2.1 demonstrates the large disparity between domestic enterprises and foreign ones in their contribution of BERD expenditure from 2007 until 2012 (CSO 2016, Eurostat 2016, Enright et al. 2014).

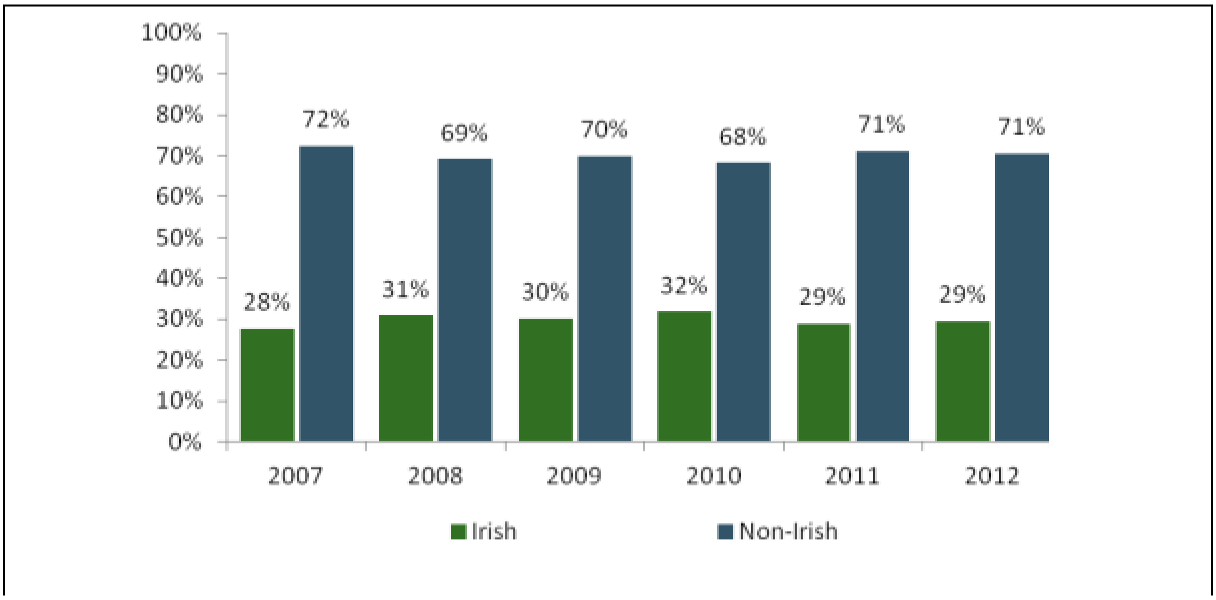

Figure 2.1 Share of BERD Expenditure: Foreign and Domestic Enterprises (CSO, Eurostat)

In addition to sheer R&D expenditure, the multinational sector has a higher rate of collaborations on research projects with other parties. In 2014, 45% of MNCs in Ireland were involved in any collaborative research projects, while 32% of domestic enterprises similarly worked with other parties (Eurostat). These collaborations can be a catalyst for further spillover effects throughout the economy and for an increase in innovation (Enright et al. 2014).

Apart from R&D, innovation expenditure contributes a great amount to the long-term sustainability of the nation's economy. Similar to R&D expenditure, MNCs accounted for almost ¾ of all innovation expenditure in Ireland 2010. In fact, the multinational sector contributed more than twice as much in innovation expenditure, as a percentage of GDP, than the domestic sector did, with 1.1% to the indigenous 0.5%. This combined 1.6% of GDP brings Ireland to just below the EU median for innovation costs (Eurostat). The FDI contribution helps to increase Ireland's standing within the EU R&D goal and to stimulate the nation's innovation levels throughout the economy.

Conclusion

Ireland's strong dependence on FDI is continually fostered by the many incentives utilized by the Irish government to encourage further multinational growth. A large competitive advantage of Ireland as an MNC host, especially for companies from America, is the relational cultural compatibility of Ireland with its partner nations (Hummel 2012, Barry and Bradley 1997). Chapter 3 elaborates on this topic of culture as a competitive advantage, and describes the various ways in which Ireland can exploit this component when seeking out source companies for investment.

Chapter 3: Cultural Distance and Competitive Advantage

In addition to the financial comparative advantages considered in new foreign investment decisions, culture can be a largely influential factor. This chapter will discuss the competitive advantage that culture offers in the investment relationship of two nations. With the introduction of foreign direct investment (FDI), inter-cultural harmony should be a main priority because of the reduction of transaction costs and increased chance of success that cultural affinity generates.

Measuring Culture in an International Context

Culture, in this thesis, is defined by a nation's preference towards specific values. This definition presupposes that culture is a result of socialization, not obtained by birth. National culture, therefore, is a "collective programming" that determines the acceptability of certain behaviors over others (Ghemawat and Reiche 2011). Metrics such as the Hofstede Framework and the GLOBE studies help to quantify this historically ambiguous component of social and economic life and thus to more easily engage in cross-national analysis.

Culture, by itself, does not offer a competitive advantage (Hummel 2012). Rather, the strategic development of cross-cultural relations can create a competitive advantage between two nations. In this way, culture acts as a competitive advantage when one nation is compatible with other investment partners. Ireland presents a cultural advantage, as explored in Chapter 4, with the United States because of the cultural affinity between the two nations. This same nation does not have a cultural advantage with every nation, however, because the size of the distance between nations, as well as the direction of investment matters in determining advantage (Tang 2012, Hummell 2012).

In 1965, Geert Hofstede began a decades-long study of over 120,000 people in 76 countries, successfully creating a comprehensive cross-national analysis of culture (Hofstede

1980). His resulting Theory of Cultural Dimensions describes the effects of a nation's culture on its members' values. Originally, Hofstede's theory included four dimensions: individualism, power distance, masculinity, and uncertainty avoidance (Hofstede 1980). In 1991, independent researchers added long-term orientation to this list, and then in 2010, Hofstede included indulgence as the sixth and final dimension (Hofstede 2010). These dimensions measure a culture's tendency towards a particular value. Each culture receives a score on a scale of one to one hundred, and this score can then be compared to other nations in a cross-cultural analysis. Comprehensively, these six dimensions serve as a framework for evaluating cultural similarities and differences (Hofstede 2010). As national culture differences tend to remain fairly stable over time, and this framework has been continually re-evaluated since its inception, the Hofstede Framework still holds particular relevance in international business today (Ghemawat and Reiche 2011).

As noted, the theory of cultural dimensions in management is not specific to Geert Hofstede. Many other researchers have attempted to quantify culture in such a way as to create relevant comparisons between different nations. One of the most significant examples is the GLOBE studies (Global Leadership and Organizational Behavior Effectiveness) (Hoppe 2007). This analysis of sixty-two societies studies the context of leadership effectiveness. The GLOBE studies employ nine dimensions to create a cross-cultural comparison of societal norms, values, and practices, especially within leadership capabilities. These dimensions are similar, though in some cases more thorough, than Hofstede's six and include: institutional and in-group collectivism (similar to Hofstede's Individualism), power distance, assertiveness (similar to Hofstede's masculinity), uncertainty avoidance, future orientation, performance orientation, human orientation, and gender egalitarianism (Hoppe 2007, Tang 2008, Shi and Wang 2011). GLOBE measures nations' response and placement within each of these dimensions and creates ten different clusters of cultural similarity.

These clusters, wherein Ireland and the United States are defined as culturally similar under the 'Anglo' subsection, define the analogous leadership effectiveness traits within similar cultures (Hoppe 2007). As an Anglo culture, Ireland and the United States lead with higher performance orientation, participation, and autonomy (House et al. 2004).

Lingui Tang (2012) synthesizes these two theories of cultural dimensions into an analysis of the effects of direction on FDI. This theory of cultural direction helps to alleviate much criticism on the lack of symmetry in Hofstede's scores. This lack of symmetry creates distorted assumptions on the variable success of FDI between two culturally dissimilar nations. For instance, without this added element of direction, the framework might assume that a US company investing in China would experience the same amount of cultural dissonance as a Chinese company investing in the US, which historically has not been the case (Ghemawat and Reiche 2011). In this way, both cultural distance and FDI direction could determine the success or failure of an MNC.

Of the six dimensions within the Hofstede Framework, this thesis will only analyze the effects of individualism, power distance, and masculinity on American-Irish FDI relations. In international business, these three dimensions are strong indicators of FDI success and mode of entry (Tang 2012, Ghemawat and Reiche 2011). Individualism, power distance, and masculinity are more relevant in export-oriented FDI than the three remaining dimensions, according to Schneider and De Meyer (1991) and Barkema and Pennings (1996). For this reason, these three are closely examined in this thesis. Barkema and Pennings explain that culture serves two critical functions: external adaptation and internal integration (1996). The authors explain, "Internal integration… bears on the firm's relationship with its employees who, in turn, is influenced by attitudes towards power distance, individualism, and masculinity" (Barkema and Pennings 1996, Schneider and De Meyer 1991).

Schein (2004) defines the main problem of internal integration as developing norms around categories of power authority, group boundaries, defined rewards and punishment, etc. He insists that all groups develop these norms and if the norms then get external tasks completed while leaving the group "reasonably free of anxiety, the norms become critical genetic elements of the culture DNA" (Schein 2004). The harmony between cultures within this important aspect of internal integration is found in individualism, power distance, and masculinity, according to the authors (Barkema and Pennings 1996, Schein 2004). American MNCs will invariably place larger emphasis on internal integration over external adaptation because the largest US MNCs in Ireland (Eaton Corp, Dell Ireland, and Apple Ireland) operate as wholly owned subsidiaries, as opposed to international joint ventures. The latter is more concerned with external adaptation, while the former concern internal integration (Barkema and Pennings 1996, Schein 2004).

Each dimension within the Hofstede Framework measures cultures on a scale of 0-100, indicating the preferences and values of members of that culture. In individualism, cultures are scored from collectivist (0) to individualist (100). Power distance is simply a scale of low (0) to high (100) power distance. The masculinity dimensions measures cultures on a scale of femininity (0) to masculinity (100). The placement of each culture on the respective dimensions gives a quantifiable indication of any advantage the nation may have in a particular cultural area (Hofstede 2010).

Cultural Dimensions, Cultural Distance, and FDI

Individualism measures the degree of interdependence within a society and is a strong predictor of employee-employer relations. People in individualist cultures tend to operate more on self-interest than on collective goals and prefer clarity in their conversations, in order for effective communication. This is in contrast to collectivist nations who may view individualist nations as cold and unsupportive. People in collectivistic cultures place greater emphasis on group thinking and loyalty within a company. Communication differs from that in individualist countries by being more non-confrontational and indirect, in order to preserve group harmony (Hofstede 2010, Hummel 2012). In this dimension, cultural distance encourages FDI by reducing acculturative stress (Tang 2008, Barkema and Vermeulen 1997). In individualism, direction of investment is almost less important than the physical distance, itself. The benefits of culture distance on FDI occur bilaterally. When a company from a collectivist nation invests into an individualist culture, FDI increases because, as stated by Tang, "managers from a collectivist culture are more likely to consult and collect opinions from subordinates, and strive to maintain organizational harmony (Tang 2012). In this situation, the collectivist managers' cultural preferences allow them to include their individualist subordinates' attitudes within the company. In contrast, a company from an individualist nation is similarly as likely to succeed in a collectivist culture as the former scenario, but through a different mechanism. An individualist parent company investing into a collectivist culture will reduce acculturative stress because the subordinates will foster a strong willingness to work with others and a dedication to the organization that will lead to an adoption of the parent company's practices by the subordinates (Tang 2012). In this way, cultural distance increases the chances of FDI success and reduces acculturative stress when the direction of invest leads from an individualist culture into a collectivist one.

Power distance indicates the practice and acceptance of inequality between individuals, which determines the success of a managerial hierarchy. Individualism and power distance are strongly correlated, in that higher individualist cultures tend to score lower in the power distance metric (Ghemawat and Reiche 2011). This connection is seen in Ireland and the United States, both moderate to high individualist and low power distance cultures. Within power distance, culture distance is negatively related to FDI activities (Tang 2008).

In this dimension, direction of investment is irrelevant as acculturative stress grows bilaterally. The investment of a company from a low power distance country into a high power distance culture causes stress due to challenges and resistance by employees, many of whom are accustomed to directive leadership and are uncomfortable with collaborative decision-making (Tang 2012). Likewise, investment from a high power distance culture into a low power distance country creates stress because the employees resent the autocratic leadership and lack of participatory decision making to which they are acquainted.

High levels of collectivism nurture a strong cooperation and commitment to company goals, traits that are less discernible in an individualist setting. Kashima and Callan (1994) explain that collective cultures are more willing to identify with the practices of the parent companies, and adopt the leadership style of that company. Thus, when an individualist parent company invests in a collectivist culture, the MNC may experience benefits of an accomplishment-oriented management, with a cooperative and company-loyal workforce. Contrarily, Schneider's (1991) ASA model (attraction-selection-attrition), insists that, while collectivist cultures may be willing to adopt the practices of their individualist parent company, the MNC will have a more difficult time seeking and retaining the 'right types' in this society (Schneider 1991). As an individualist society has a relatively open labor market, successful acculturation may benefit from this more free moving labor (Schneider 1991). In this dimension, FDI activities grow with the introduction of multinational corporations (MNCs) from culturally similar nations.

The third dimension, masculinity, is the area in which the US and Ireland are most similar. Masculinity expresses the degree to which a society is driven by competition and the need for individual success (Hofstede 2010). In this dimension, the direction of investment is equally as important as cultural distance. Acculturative stress grows when a masculine culture invests into a feminine host culture, because the masculine parent company may manage aggressively and enforce the organization's ideals of the goals and practices of the company. This will cause resentment within the subsidiary, as these ideals are likely to be valued less in a feminine culture. Contrarily, investment from a feminine source company into a masculine culture will encourage FDI. The collaborative nature of feminine leadership will minimize organizational conflict within the masculine culture, and is the more popular form of leadership for both feminine and masculine cultures (Hofstede 2010, Tang 2012).

Cultural Distance and Transaction Costs

The introduction of FDI incurs many transaction costs. The reduction of cultural distance can minimize or eliminate many added costs involved in location, mode of entry, and performance of MNCs (Tang 2012, Shenkar 2001). Oded Shenkar (2001) reviews the cultural distance construct and the many costs associated with it. He argues that the biggest comparative advantage in culturally similar nations is the loosening of control between the parent company and the subsidiary in the host country. Drawing on research by Buckley and Casson (1976), Shenkar states "transaction cost theorists associate higher distance with a higher cost of transaction due to information costs and the difficulty of transferring competencies and skills" (Shenkar 521). The uncertainty underlying all FDI decisions grows stronger in culturally distant nations and fosters a strain on the parent company's resources as it tries to neutralize this uncertainty (Roth and O'Donnell 1996). In culturally distant nations, agency costs increase because comprehensive and trustworthy information about the subsidiaries performance, through the agent, becomes more costly to obtain. Shenkar explains, "It will be more difficult to verify claims by culturally distant agents, since the agents will make claims rooted in an unfamiliar environment while buffered from enforcement by an MNE" (Shenkar 521). This theory is echoed by Eramilli and Rao (1993), who argue that lower cultural distance enforces lower control, because the relationship is balanced by a mutual level of experience and asset specificity (Shenkar 522).

The costs associated with launch and entry mode of a culturally dissimilar host country (tightening of control, information costs, and the difficulty of transferring competencies and skills) will also affect the performance of the MNC within the country (Shenkar 2001, Chang 1995). Li and Guisinger (1991) conducted a study on foreign-controlled firms in the US, and found that US affiliates in culturally distant countries had a much higher failure rate than those with culturally similar foreign partners (Li and Guisinger 1991).

One large transaction cost affecting the performance of culturally distance nations is a conflict in language. Ireland currently has two official languages, English and Irish, but the former is overwhelmingly used in both professional and social settings, making this an English-speaking nation (West and Graham 2004). While the US does not have an official language, English is the most common one spoken, especially in the business world. Ghemawat and Reiche explain, "Language is another observable aspect of culture, which according to some researchers offers a window into deeper beliefs and thought processes" (Ghemawat and Reiche 2011, West and Graham 2004). This connection of language and culture, argues Ghemawat and Reiche, sprouts from the presence of common linguistic ancestors. The researchers note occasions in which language immediately reflects culture. Within the Hofstede Framework, English-speaking nations are more individualist than Spanish- speaking ones, with average scores of 84 and 22, respectively. This connection is also found in power distance, wherein English-speaking cultures routinely score lower in power distance (an average score of 32) than their Spanish-speaking peers (average score of 69) (Ghemawat and Reiche 2011, Hofstede 2010). Ireland and the US, English speaking nations, follow this trend as higher individualist and low power distance countries.

This common language is not only a predictor of cultural similarity, but also a reduction of transaction costs. According to Maurseth and Verspagen, sharing a common language increases amount of knowledge flows between two nations by up to 28 percent (Maurseth and Verspagen 2002, Ghemawat and Reiche 2011). While the use of translators and written communication can help facilitate FDI, direct communication is often three times more effective in promoting international business than indirect communication (Ghemawat and Reiche 2011).

Conclusion

Culture, as measured using the Hofstede Framework and the GLOBE studies, acts a predictor of FDI success. Culture as a competitive advantage for a nation acts in relation to its proposed partner. Nations' offer differing degrees of cultural advantage depending on the cultural compatibility of the parent company's source country. The distance and direction of different nations can help to determine the location, mode of entry, and performance of MNCs. Ireland and the US are culturally compatible nations, as demonstrated by their direction of investment in individualism and the similarities of scores in both power distance and masculinity. In addition to the cultural compatibility of these two nations, reduction in cultural distance reduces many of the transaction costs incurred during FDI. These costs include information costs, tightening of control, and linguistic obstacles. In countries with reduced culture distance, these costs all drop dramatically, and so FDI into these more culturally congruent nations is more attractive. Cultural advantage varies between different FDI partners and is reliant on the comparable scores of the source and host nations. A country may offer a competitive advantage in culture in relation to a specific trade partner, but may lose this advantage in consideration of a source nation with entirely different cultural values. The relational importance of culture as a competitive advantage emphasizes the power in understanding the compatibility of two nations before engaging in foreign investment.

Chapter 4: Ireland-US Cultural Profiles and Comparative Advantage

Ireland and the United States' relationship throughout the past century has positively attributed to the growth of each country: politically, economically, and culturally. As Ireland's largest investor, the US has an invested interest in the economic well-being of Ireland, while US companies continue to gain large advantages from operating within the small nation's borders. The cultural similarities between these two nations help to encourage these advances, as well as the direction of investment between the two cultures. The FDI relationship of the two nations is aided by the cultural congruence of Ireland and the US and offers support for the growing trend of investment from the latter.

Historic Context of the Ireland-US Relationship

The United States and Ireland have had a close economic relationship since Ireland first opened its borders to outside investment in 1958 (Barry and Bradley 1997). Throughout the next five decades, the simultaneous growth and decline of the two nations has helped to define Ireland and the US as economically interdependent (IDA Ireland 2016). According to a report published by the American Chamber of Commerce Ireland in March of 2015, Ireland is the largest recipient of American FDI (foreign direct investment) in Europe, with an estimated $277 billion in US-sourced investment between 1990 and 2015 (American Chamber of Commerce 2015). While the favorable tax incentives provided by the Irish government are certainly a contributing factor to this increasing international growth, a large component of this favorable relationship lies in the decreased transaction costs of the culturally congruent nations (Shenkar 2001, Berry 2001).

The US Department of State released an Investment Climate Statement in 2014 on the economic relationship between Ireland and the United States. Some factors offered by this document supporting the attractiveness of Ireland as a host location are the corporate tax rate, the pro-business government policies, a transparent judicial system, transportation links, and geographic location (Jensen et al. 2014). These factors are all valid in supporting the fiscal incentive for US firms to invest in Ireland. The document also, however, offers a number of reasons that are direct consequences of the cultural relationship of the two nations: the quality of the English-speaking workforce, the cooperative labor relations, political stability, and the “clustering” effect of existing companies currently successful in Ireland (Jensen et al. 2014).

IDA Ireland describes US investment as ‘crucial to Ireland’s economic success’ and the American Chamber of Commerce Ireland has stated, “the past five decades of deepening commercial linkages between the US and Ireland has helped transform Ireland into one of the most prosperous countries in Europe” (IDA Ireland 2011, Quinlan 2011). This mutual understanding of the US importance in Irish economic matters has only increased since the birth (and eventual death) of the ‘Celtic Tiger’ (Enright et al. 2014, Fanning 2016). This economic phenomenon, beginning in the mid-1990s and ending in 2007, describes a period of unrestrained economic growth in Ireland (Fanning 2016). The economy underwent this decade of expansion largely under the increased investment of US multinationals (Fanning 2016). The closely tied growth and decline of the Irish and US economies caused a domino effect of loss during the Great Recession of 2007 (Fanning 2016).

This, however, did not slow US investment into Ireland. In the five year period from 2008-2012, US firms invested $129.5 billion into Ireland, more than the previous 58 years, combined (Taylor 2015). According to a report by the American Chamber of Commerce Ireland, exports from US companies in Ireland are four times higher than from similar US MNCs (multinational corporations) located in China (American Chamber of Commerce Ireland 2015, Taylor 2015). This indicates that in addition to the amount of investment Ireland receives from US multinationals, these MNCs are greatly profitable, outputting over

$80 billion last year (Taylor 2015, American Chamber of Commerce Ireland 2015). IDA Ireland estimates that Ireland is the most profitable European location for US manufacturing firms, with an average return on investment of 25% (IDA Ireland 2014, Ruane and Gorg 1999). Ireland is the sole largest export platform in the world for US firms, emphasizing the importance of this small island in the global value chains of US MNCs (Jensen et al. 2014, Enright et al. 2014).

The US FDI impact on Ireland, especially within the manufacturing industry, continues to affect the latter nation's domestic output and GDP. Over 700 US companies, in all sectors, currently operate within Ireland and are responsible for over 70% of the total MNC employment (IDA Ireland 2011). In 2011, US investment in Ireland accounted for over $165 billion, greater than the US investment into any of the BRIC nations (Brazil, Russia, India, and China) combined (Jensen et al. 2014).

Qualitative Cultural Compatibility of the US and Ireland

As discussed in Chapter 1, many of the prominent incentives within the decision to locate to a new country involve technology, natural resources, and wage differentials (Driffield and Taylor 2000). Within the Irish-US relationship, these three factors do not apply as sole incentives. Much of the technological advances of the United States are shared by Ireland, as both are developed Western nations and devote comparable amounts of resources to innovation (Jensen et al. 2014). The international manufacturing industry within Ireland is not dependent on natural resources, as the firms generally import goods, add value to the goods, and then export them (IDA Ireland "Advanced Manufacturing" 2016). Finally, wage differentials are not a contributing factor in the decision for US multinationals to invest into Ireland for a number of reasons. Labor costs are generally the same between the US and Ireland ($35 to $38, respectively), and are considerably more than the average cost of labor throughout the EU ($28) (Ruane and Gorg 1999, Berry 2001, Eurostat 2016, BLS 2015). By removing these considerations as main components to explain the considerable amount of US investment into Ireland, the actual relational cause must be determined.

Rory O'Donnell of the Institute of European Affairs, claims that the strong cultural ties between the US and Ireland encourage this expanse of FDI, especially in recent years (O'Donnell 2000). He explains the relationship relative to the US' interest in other EU nations:

> While at the outset of our [Irish] membership of the European Community, it was possible to argue that much of the US interest in investment in Ireland was as an English-speaking base with access to the European market, I believe that the perspective has changed. Our huge success in attracting [MNCs] is both a product of, and cause of, an extraordinary Irish achievement in deepening our relationship politically, diplomatically, and economically with the United States, while at the same time embracing European integration (O'Donnell 2000).

O'Donnell emphasizes the importance of both the similarities in Irish and American culture, as well as the significance of the Irish diaspora as a managerial source (O'Donnell 2000). Berry highlights this connection, explaining that cultural compatibility emerges from a bilateral flow of immigration and tourism (Berry 2001). Regarding this large human flow between the two nations, Berry says, "Because of this, [American MNCs] are familiar with the Irish culture, or are even Irish themselves, and have a natural tendency to feel more comfortable working with Irish workers than with workers of some of the other low wage EU countries" (Berry 2001).

Cultural Affinity in Individualism, Power Distance, and Masculinity

In addition to this more qualitative similarity in culture, the two nations demonstrate a strong relational compliment in the more quantifiable definition of culture provided by the Hofstede Framework. Specifically, Ireland and the US express compatibility in individualism, power distance, and masculinity. Discussed in Chapter 3, individualism, power distance, and masculinity are important determinants of cultural compatibility in wholly owned subsidiaries, such as American MNCs in Ireland (Barkema and Pennings 1996). The cultural affinity between these two nations in these three dimensions can determine the success of FDI. Ireland and the United States are culturally compatible in individualism, power distance, and masculinity, which may explain the high success rate of US MNCs in Ireland

Chapter 3 provides an overview of Hofstede's Theory of Cultural Dimensions. An individualist work force is self-reliant and accomplishment-oriented. Both Ireland and the United States are individualist, according to both the Hofstede Framework and the GLOBE studies (Hofstede 2010, Hoppe 2007). Ireland, with a score of 70, is less individualist than the United States which, with a score of 91, is the most individualist nation in the world (Hofstede 2010). Within the individualism index, Western and Eastern nations generally demonstrate a larger disparity. The mean score for the European Union is 57.7, with a median of 60[1] (Hofstede 2010). This may be more a reflection on the cultural diversity of the European Union, than a broad statement on the individualism of the continent. This average, significant or not, does show a general trend towards individualism and away from collectivism within the EU. Tang (2008) argues that cultural distance in individualism encourages FDI, through the reduction of acculturative stress. The reason for this diminution

[1] This average does not include the Republic of Cyrus, of which no Hofstede scores were available.

of significant stress is that a collectivist culture is more likely to accept the organizational requirements and practices of the parent companies (Tang 2008).

With a 21 point disparity, the two nations experience some cultural distance, but not as great a distance as Ireland or the United States can claim with some of its other investment sources (i.e. China with a low score of 20) (Hofstede 2010). Distance, however, is not the sole indicator of cultural advantage, especially within individualism (Tang 2012). Chapter 3 emphasizes the importance of both direction and distance, as simultaneous factors, on FDI. Tang notes that in addition to the quantifiable culture distance, the direction of this investment is slightly significant to the success of MNCs. The investment of a parent company from an individualist nation into a collectivist nation will experience the benefits of this reduced acculturative stress. While Ireland is by no means a collectivist country, its quarter-scale difference from the United States in this dimension is significant enough to create a competitive advantage (Ghemawat and Reiche 2011). The direction of investment from the 91-point individualist nation (the United States) into the 70-point nation is as relevant as the actual distance of the scores (Tang 2012). Figure 4.1 demonstrates the inverted bell-curve predictive of FDI's relationship with individualism distance.

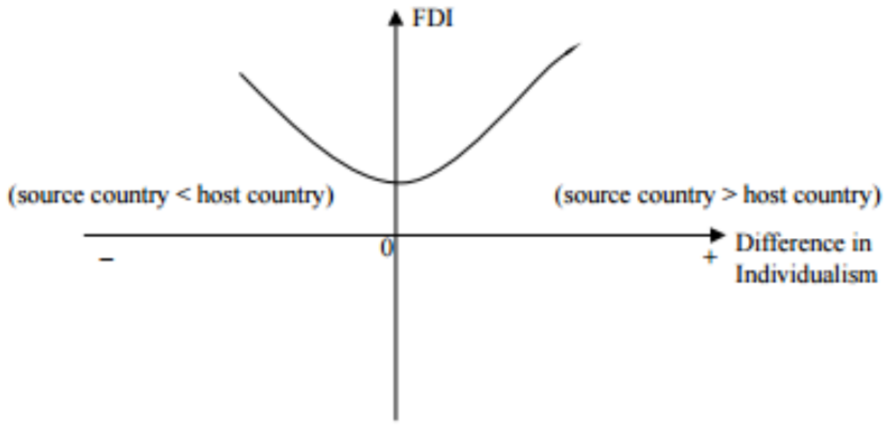

Figure 4.1 (Tang 2012)

Power distance, in both the Hofstede Framework and the GLOBE studies, expresses the inequality between individuals and measures the degree to which less powerful members of the society accept the uneven power distribution (Hofstede 2010, Hoppe 2007). Low power distance cultures are more receptive to empowerment, hierarchical flexibility and group learning. Alternatively, high power distance cultures prefer directive leadership, are uncomfortable with collaborative decision making, and work best with defined roles and responsibilities (Ghemawat and Reiche 2011). Because of the managerial chasm between cultures of conflicting power distance scores, acculturative stress grows with the introduction of FDI into culturally dissimilar nations (Tang 2012).

Tang summarizes that FDI activities and differences in power distance scores are negatively related (Tang 2012). In this dimension, direction of investment is irrelevant as the stress occurs bilaterally; FDI has an equally high chance of failure when a company from a high power distance country invests in a low power distance culture or vice versa (Tang 2012). Kirkman and Shapiro (1997) argue that much of the acculturative stress generated in power distance incongruences develops as a result of resistance from the subsidiaries and challenges by the employees, who do not have a societal preference for the alternate management style. Employees from a low power distance nation may yearn for the authoritative leadership and centralized decision making that the culture values. Conversely, members of a high power distance culture may resent this strict hierarchy and lack of autonomy that companies from a low power distance culture might espouse (Kirkman and Shapiro 1997).

With a 28 and a 40, respectively, both Ireland and the United States rank below average in the power distance dimension (Hofstede 2010). The relationship is defined as being culturally similar, because of this small, twelve-point difference. This difference between the two nations is negligible when considering Ireland’s scores in reference to the nation’s other trade partners. Ireland's score of 28 is much closer to the US score of 40, in comparison to the EU average of 51.4, or the world average of 55 (Hofstede 2010). Figure 4.2 demonstrates this relationship between low and high power distance countries and its effect on FDI.

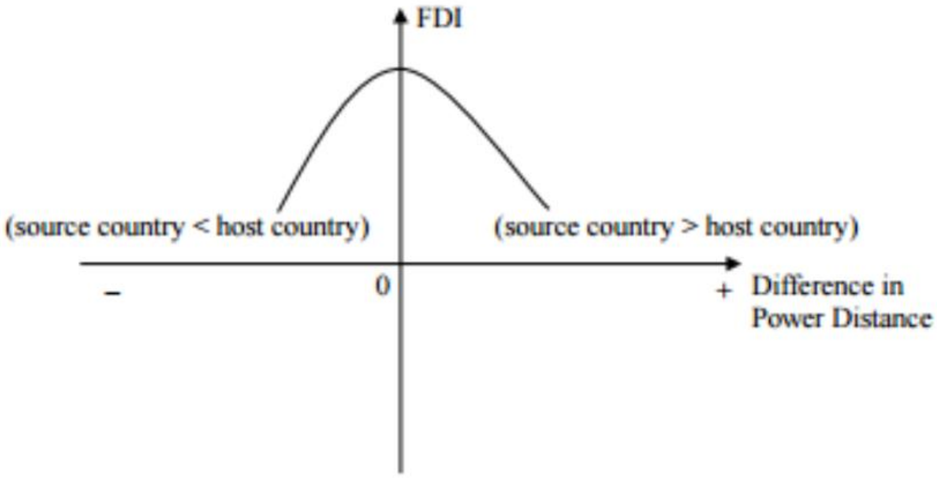

Figure 4.2 (Tang 2012)

The third dimension discussed in this paper, masculinity, is one often associated with international management[2]. Masculinity indicates the degree to which a society is driven by competition and the need for achievement. This dimension indicates a culture's preference through its antithesis: femininity, or the cultures' devotion to values of communal care and quality of life (Hofstede 2010). The definition of success for these two poles illustrates the key differences between feminine and masculine cultures. Femininity defines success as high quality of life, happiness, and comradery. Masculinity, contrarily, defines success as individual achievement, excelling in one's field, and recognition for one's own accomplishments (Hofstede 2010). This dimension of the Hofstede Framework is complimented by the GLOBE assertiveness scale, which measures the dominance of

[2] Some scholars, such as Michael Jones and Paul Costa, argue that the title of the Masculinity dimension does not fully express what the dimension means to define. Advocacy for a change in language may alter the expression of Masculinity v. Femininity in the future (Jones 2007, Costa et al. 2002).

aggressive traits of individuals in social relationships (Den Hartog 2004). According to the GLOBE studies, high assertive cultures prefer masculine (i.e. decisive and aggressive) managers, while low assertive cultures prefer feminine leadership (participative and team-focused) (Tang 2008, Hoppe 2007). According to Tang, FDI activities are negatively related to cultural distance, as demonstrated by Figure 4.3.

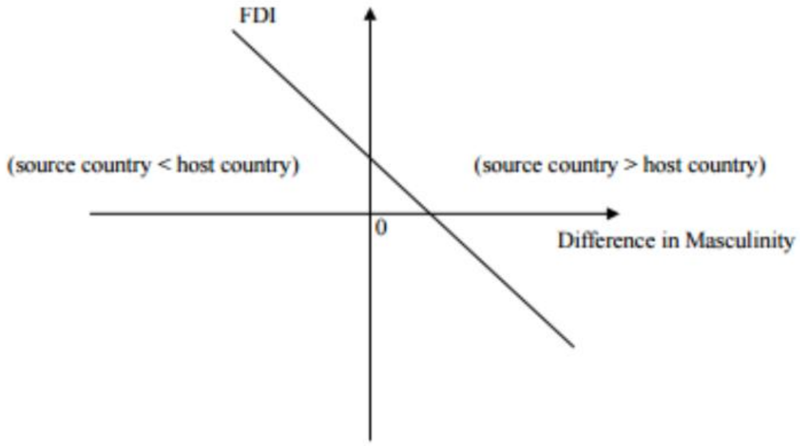

Figure 4.3 (Tang 2012)

In the masculinity dimension, direction of investment can also determine the success or failure of FDI. Acculturative stress increases when a parent company from a masculine source country invests into a feminine culture (Tang 2012). This stress arises from the friction between the organizational dominance of the aggressive parent company to the host country that does not hold these same values. Contrarily, investment from a feminine source country into a masculine host country reduces acculturative stress because the feminine parent companies will be more successful at reducing inter-organizational conflict, and therefore have a comparative advantage within the industry. (Tang 2012, Hofstede 2010, Hummel 2012).

Ireland and the United States demonstrate cultural similarity in this dimension with Ireland at 68 and the US at 62. As cultural distance negatively affects FDI, the small six-point difference between the two nations encourages foreign investment. The similarities in this dimension between Ireland and the US are even more striking when compared to the world and EU averages of 50 and 46, respectively. As Ireland and the US are both relatively masculine nations, their congruence in this dimension forecasts FDI success.

Conclusion

Ireland and the United States' strong economic relationship is a result of many factors: a low corporate tax rate, ease of doing business, and integration into the European Union. One large competitive advantage incentivizing US companies to invest into Ireland is the complimentary cultural linkage between the two nations. In the three aforementioned dimensions, individualism, power distance, and masculinity, Ireland and the United States demonstrate a healthy cultural affinity which may predict FDI success and encourage future MNC entrance into Ireland. The role of culture on comparative advantage is an important part of FDI decisions, and has significant influence on the success of US MNCs in Ireland.

Conclusion

The involvement of foreign direct investment (FDI) in Ireland has both benefitted and harmed the small nation. Its' reliance on multinational corporations (MNC) has generated large productivity spillovers, positive employment effects, and a stronger gross value added. This echoes a common theme of FDI dependent countries across the world. Foreign investment can promote greater economic development, but can also make the nations' marketplace susceptible to the economic whims of its source companies' countries. For this reason, the relative comparative advantages of both the host country and the entering MNC influence the decisions regarding location, mode of entry, and can predict the performance of the company.

The decision of an MNC on where to locate is almost entirely reliant on the comparative advantages offered by the potential host countries. The amount of foreign investment within a nation is determined by the incentives granted by the government, as well as traditional advantages in technology, natural resources, and wage differentials. Less traditional advantages, including culture, also have a large influence in determining FDI. In the next few years, FDI will continue to be a strong stimulus for economic growth throughout the world, and the strong globalization that defines the modern world economy may expand. The relative impact of this increased FDI is reliant on the cultural congruity of the two partner nations and will determine the speed and success of MNC expansion.

Culture, as a component of FDI, can help decide entry mode, location, or can predict the performance of the MNC. This source of relative competitive advantage between a host country and its source companies is determined through the comparative scores in the Hofstede Framework, and through other cultural and human capital factors influencing the nations' values and preferences. Ireland and the United States' comparable Hofstede scores in individualism, power distance, and masculinity encourage unilateral foreign investment from the US. The cultural affinity between Ireland and the United States, as outlined by this thesis, influences both the success and choice of entry of American MNCs into the small nation. Companies considering FDI should more closely analyze this component before choosing a location for investment, as it can help forecast the success or failure of the potential MNC.

The inclusion of this added component as a determining factor in FDI success will have implications for foreign investment across the world. While most nations use various financial incentives to attract MNCs, both host countries and source companies would benefit from considering cultural congruity before entering a nation.

As a current example, India has failed to attract substantial FDI inflows in the past few years, despite efforts by the government. Some of the largest reasons for this failure are the nation's political philosophy, reputation as a host country, and lack of infrastructure. The former two causes could be alleviated by focusing FDI appeals towards culturally congruent nations. For instance, India and China express greater cultural similarity than India and the USA or Germany (two of the nation's top 5 investors). While China continues to increase its outward FDI flows, India could apply the theories of culture as a competitive advantage to determine the best country from whom to attract FDI. Ireland, similarly, attracts investment from a large investment source largely as a result of the two nations' cultural affinity. The mirrored economic positions of the US and China to Ireland and India, respectively, provides support for the inclusion of culture into India's foreign investment framework.

In another application of culture, nations within the EU could refine their FDI strategies to source from countries (outside of the EU) with whom they are culturally similar. Culture is a much more consistent advantage of a nation than any financial incentives. In this way, if the EU's economy were disrupted (for instance, upon a UK exit), then MNCs might rely more on cultural congruence than on economic uncertainty. In the future, economic factors are likely to grow increasingly uncertain and in an intertwined economy such as the EU, this could have monumental consequences. The Greek financial crisis foreshadowed the major effects that an EU disturbance could cause. If investment is determined more heavily based on cultural affinity than has historically been the case, these economic disruptions could have a lesser impact on the larger economy.

Currently, Ireland does not have a relatively large impact on the global economy. The global economy, however, has great influence over Ireland. As Ireland's foreign-owned sector continues to expand, the economic relationship between Ireland and the US will strengthen. The stability of the cultural similarities between the two nations implies a long-lasting investment partnership: one that will keep the two economies financially associated for years to come.

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