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***Transnationalization through
country-of-origin clusters:
drivers and challenges in China***

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“A bird does not sing because he has an answer. He sings because he has a song”

(Joan Walsh Anglund, 1967)

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INTRODUCTION

1. Research rationale

There is an existing debate about whether globalisation diminishes or increases the importance of economic geography. While some voices claim that globalization reduces the importance of distance due to the effect of information and communication technologies on economic activities, others argue that the role of space, place and scale increase in the globalising world. The internationalization and interconnection of economic activity increases and inequality among places increase, which makes geography more important than ever.

Although network perspectives have had a significant influence in recent years, most economic geographers recognize that conventional ideas about global and local scales remain important for analyses of globalization's causes and consequences. This dichotomy is manifest in the creation of economic relationships and terms such as "*glocalization*" (global-local) or "*glurbanization*" (global-urban). The interaction between firms and particular places or locations have been identified as an area of mutual interest to IB and EG.

In this globalized context, foreign direct investment (FDI) is one of the major strategic decisions adopted by multinational corporations (MNCs). Adopting and implementing an internationalization strategy involves opportunities and risks. Emerging economies operate under greater uncertainty and fewer institutional and legal structures than the developed ones. Some of the main concepts related to Uppsala model are those that explain the firms' problems and opportunities in international business. The challenges for firms have moved from country-specific (liability of foreignness, LOF) to relationship-specific (liability of outsidership, LOO). This change supports our view on how firms may adopt the strategy of going abroad together and co-located with other firms.

When deciding to go into China, several options could be considered. In fact, China can be seen as a big conglomerate of different clusters, which have been developed through policy but also business initiatives. Since the opening door policy of China in 1978, Deng Xiaoping's Southern Trip, and establishment of the initial SEZs in China in 1980, economic agglomeration and special economic zones have been one of the main drivers of industrialization and development in China. Although the patterns of location may shift due to new policies to locate FDI outside the usual industrial parks for foreign MNEs, inward FDI in China is expected to increase in the coming years.

In this sense, and to face those difficulties and risks in China, when MNCs enter an emerging market, they often decide to co-locate near other FDI firms. Sometime this co-location is with subsidiaries of the same country of origin - namely as 'country-of-origin FDI agglomeration'. This type of agglomerations offer trust advantages among the compatriot FDI firms as an effect of the ethnic ties and shared socio-cultural backgrounds of the members. They also provide the space to access and share sensitive and tacit knowledge about the local environment or gain legitimacy in the host country. Current literature on internationalization process also put the focus on the need of networks to reduce the liability of outsidership. Network theories have also support the idea that firms, through networks, overcome liabilities of newness and smallness. These liabilities are often reduced through the entry mode of joint ventures or acquisitions.

Several research focus on those general entry mode choices (exports, licences, greenfield, acquisitions, joint-ventures) but there is an important gap in the literature, especially when the investment decision implies transferring assets to distant countries. IB studies on location have focused on how the characteristics of the host country (in terms of development stage, political system, economy) affect the expansion of foreign firms and others have examined how the "distance" between the home and host country affects the international expansion of companies but not much research has been done on how the country-of-origin host context influences the firms'

internationalization process. These types of clusters could help developing networks within that process.

Within this context, firms make a different use of collocation and its effect. In an international context of subsidiary collocation, expatriates play an important role. These managers from compatriot FDI firms are essential agents in the synergy building among the firms. They engage in social interactions through social networks both formally and informally, which contributes to the ripening of the synergistic advantages (social capital). Social capital then is seen as a source of competitive advantage and knowledge. However, extant studies on expatriate social network predominantly focus on expatriates' relationship building within one organizational context. Further research is needed to understand the mechanisms through which the expatriates construct social capital, especially when it comes to country-of-origin agglomerations.

We think there is a need to analyse how the externalities and social capital is generated and acquired from Foreign Direct Investment (FDI) co-location, at least due to two reasons: a) the diversity of the activities and strategic purposes in which those companies are involved can generate heterogeneous participation on the benefits generated from that co-location, and, b) the different nature of expatriates can make social capital be managed and distributed through various mechanisms.

This is fundamental when the success of the FDI process in distant markets, such as emerging economies, goes beyond the mode of entry (acquisition or Greenfield) or control (joint-venture or WFOE) and depends on the proper management of the network.

Despite of this, not much research has been done considering the social network perspective in IB at the inter-organizational or inter-MNC level. Not much research has been done considering the social study extends the existing cluster literature by shifting scholar's focus towards a social learning community approach at an international level.

The focus of IB scholars is to analyse the differences among countries and how business and managers deal with these differences. However, there is a need for IB scholars to deepen their understanding of the contexts of their research. On the other hand, economic geographers usually analyse the development differences between regions, explaining the reasons and consequences of these differences from an economic perspective (growth and prosperity, crises and decline) at different geographic levels (local, regional, national and global). Economists usually pay little attention to the geographical dimensions of economic processes while economic geographers consider geography as being essential for the understanding of the way economy work. Some of the key concepts of economic geography are those of space, place and scale. Space refers to physical distance and area (where a particular process is happening). Place aims to capture the specificity or uniqueness of particular places (embedded in environmental, social, cultural, institutional and political context). These scales give a way to conduct research at different levels (global, macro-regional, national, regional, local or lived places).

As mentioned previously, literature distinguishes different types of handicaps such as liability of foreignness (LOF) or liability of outsidership (LOO) but it does not link those liabilities to the place (homogeneous space). On the other hand, geographers argue that economic processes play out in differentiated space (Anderson, 2012) suggesting the specificity of the locations (concrete place) (Dunning, 2009; Beugelsdijk et al., 2010). By linking the literature in Economic Geography and IB, it contributes to disentangling the space and the place of MNEs. Our work contributes to the agglomeration and network theories on IB by analysing the formation of communities of practice and social capital at the host country level.

Thus, firms are interrelated not only in the home country but also in the host locations and the subsidiaries are the agents that interlink those intra-organizational and inter-organizational relationships. FDI could adopt different types of localization, being the agglomeration mode (in its different forms such as COO clusters, industrial clusters, business parks, etc.) one of the most interesting choices. This co-location can provide benefits to the member firms.

However, co-location is necessary but not sufficient for the members to interact and gain synergistic advantages. The interaction and embeddedness that social capital build is needed, and this is developed and used in different ways among the members. Therefore, although the general literature shows the strategic importance of social capital and networks, further research is needed to understand the mechanisms through which the expatriates construct that social capital. Specifically, this topic remains under-researched when it comes to country-of-origin agglomeration.

From a practical point of view this research help companies take decisions regarding a localization mode that allow them reduce risks, gain legitimacy, share knowledge and thus be more efficient on their internationalization process. At a political level, the research can enlighten the design and implementation of strategies that support enterprises in the internationalization process in emerging markets.

In sum, this research has personal, socioeconomic, opportunity and academic reasons. At a personal level, the researcher has a special interest in analysing the business reality in Asia and when the researcher was in China, she realized that the Basque multinational firms had the same origin and destiny (China) but not all were locating in the same place, adopt the same entry-localization strategy or perform in the same way. From a socioeconomic point of view, the internationalization strategy of firms is necessary for their survival so being glocal and adopting a transnational view where both the economic and social objectives are balanced is important. China is one of the biggest market of the future and firms have an especial interest in this market. Academically speaking, and as mentioned before, this research will shed light on several issues such as the determinants of country-of-origin clusters, the factors that influence an unequal effect of the cluster, or the mechanisms used to create and exploit the social capital of the cluster.

2. Research objective

The transnationalization of firms is the object of this research. The literature on IB and FDI argues that uncertainty and risk of transnationalization increases when the distance between the origin and destiny is higher (i.e. China). This comes as an effect of the liabilities that firms have in terms of lack of information and knowledge about the host country, economy, language and culture, law and politics.

When adopting an FDI strategy firms take two basic decisions: how (alliances, acquisitions, greenfield, etc.) and where (foreign-location choice). Traditionally FDI has been studied from the “where” point of view from a more general or macroeconomic approach (space). From this point of view, the focus is on the property and control of the subsidiary and normally when the distance is higher firms adopt alliances (joint-ventures) or acquisitions. However, recent literature has described a phenomenon, the agglomeration of multinational firms, which shows there is an asymmetric geographical dispersion of the firms that suggest that the macroeconomic approach (space) may not be appropriate.

In effect, countries have different sub-national realities, not only in geographic or institutional terms but also in the relational aspects that link subsidiaries of similar activities or from the same country-of-origin. Thus, in transnationalization processes, not only the country is important but also the place. This is the point where literature connects the *how-where* and the *where-how* and an emergent reality of analysis emerges, the place.

In this sense, in transnationalization, the distance, risks and uncertainty can be reduced with either an entry mode strategy or a localization strategy. This research relies on this idea, where subsidiaries can also face transnationalization processes through the geographic agglomeration. From this point of view, the research interest is on the *place*: its actors and geographical relationships.

Thus, the objective of this research is to analyse the role that country-of-origin (COO) clusters have on the transnationalization of firms.

We adopt the view of the COO cluster as location mode in distant markets like China. To this end, the empirical research framework seeks to address the following research question:

1. Which challenges are the subsidiaries facing in China as a result of the business environment and practices there? Do they differ among subsidiaries?

This question takes a macro level point of view where the general environment where the subsidiaries are doing business is analysed. This part of the research provides information about the business liabilities in China.

To answer this question related to the IB approach, there is a perspective that complement that of IB, i.e. the economic geography (EG) view, which analyses the territories, its organizational models and its participants. We may think that FDI agglomeration can act as a mechanism to reduce those challenges. In this sense, we propose the second research question:

2. Which externalities do COO FDI agglomerations provide? Do they differ among subsidiaries?

This research question will analyse the reasons why firms locate in FDI cluster and the advantages they obtain from this kind of geographical agglomerations. It aims to analyse the real effect of COO clusters on providing the subsidiaries an improvement on their performance. We aim to analyse the perceptions that the subsidiary managers have about their localization and the positive value that this location mode provides (as a mean to access market, resources or others).

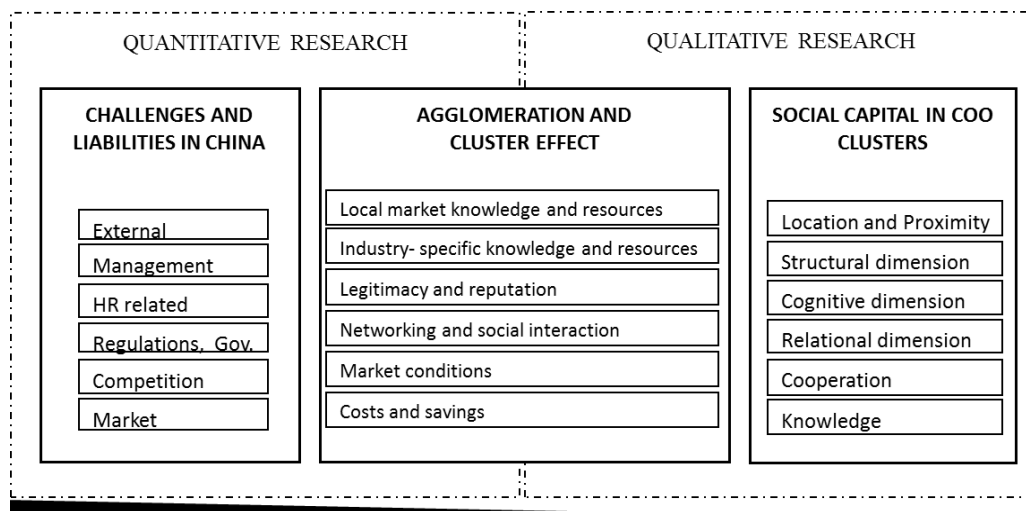
Country-of-origin clusters provide a net effect on the firms (difference between negative and positive externalities) but not much is known about the conditions

in which that net effect is positive. This is linked to the strategic asset that emerges from the actors of the cluster and their relationships, i.e., the social capital. We thus propose the following third research question:

3. How is the role that geographic expatriates' communities of practice have in COO clusters? How do they develop and build the social capital of the subsidiary network?

Given the scarcity of theory in this area, addressing these questions warrants an in-depth qualitative study that allows to analyse how subsidiary managers build and exploit social capital internationally. This research question aims to understand how the international social capital of expatriates in a COO cluster is constructed, used and distributed among the members and how this configuration help the members in their internationalization process. For this we will look deeper at one of the case studies to better understand how (if colocation exists) the members of COO clusters interact or not, and if they do, how the social capital of the network is configured. Due to this, the object of analysis are the individuals and their perceptions. From this point of view, we assume that the geographical clustering is necessary but not sufficient for the existence of externalities. As shown in the following figure, these three questions will be the pillars of the research.

Figure 1. Research diagram



Source: own elaboration

3. Structure of the thesis

This structure and role of the firms under study will somehow affect the transnationalization and clustering strategy on the host country, in this case, China. We will analyse why firms that may have different strategies and reasons to enter an emerging market decide to adopt the “network and corporate internationalization” as a strategy to go abroad in cooperation with other firms. This network in the form of COO FDI cluster is the platform where firms can create a learning community to share knowledge. Once we understand the rationale behind this strategy, we will take a case study to analyse the governance, relationships and social behaviour of the member firms by looking at the social capital that they generate within the network.

The first part will introduce the theoretical review on international business, where we adopt a network view and review some of the main elements to study the internationalization of the firms, emphasizing the role of the subsidiary as a unit of analysis. The second part will focus on the concept of business relationships and networks to better understand what an inter-organizational business network is and what value is created from the network in terms of collaboration and knowledge. The following section takes the agglomeration of the firms at the centre, where the rationale under co-location of the firms and its typologies or effect will be introduced. We will analyse the value of this geographical co-location in terms of the social capital created among the members. The aim of chapter 4 is to contextualize the literature review within a China business environment and characteristics. The next section presents the methodology used on this research that will be applied to obtain the findings described in chapter 6. We will conclude the research by pointing out the conclusions, research limitations and future research lines.

CHAPTER 1: TRANSNATIONALIZATION STRATEGY

Nowadays an increasing number of companies, regardless of their size, are engaging in cross-border economic activities. Not only large multinational corporations but also SMEs are integrated into the global economy and have gone beyond what is often the first step of internationalization, exporting and importing, even following accelerated market entry strategies. In line with Hollenstein (2005), however, firms, especially SMEs face different challenges and barriers within their internationalization process that can be internal limitations of resources (financial, informational, managerial, etc.) and/ or external barriers such as laws and regulations. According to Carlos (2011), SME firms have found new ways to deal with smallness and newness but they are typically constrained in their efforts to reach international markets. Some of the limitations that they find are their lack of experience, skills, know-how, governance structures, limited capital and management, time and information resources.

Researchers have recognized that a high degree of internationalization may potentially have a negative impact on firm performance. The costs of internationalization are typified by the problems of the liabilities of newness and foreignness (Hymer 1976). According to Hofstede (1980), internationalization could create communication and coordination problems as well as cultural differences that hinder the growth of the firm. International expansion of the operations could increase the financial risks such as exchange-rate fluctuations and inflation.

International Business (IB) literature has extensively studied the process of internationalization of companies from a very descriptive prism by focusing on the different stages of the process and its duration. This approach has attempted to answer questions related to why some companies decide to internationalize at an early stage after they are founded, why some never go international, or what were the determinants that influence their internationalization process (Ghauri and Cateora, 2014). We used to talk about internationalization as a

concept with a centre and a periphery, then the concept of multilocalization came as an organizational structure where the centre still has the decision power but some functions are localized, giving other nodes abroad some autonomy. It is time now to think about transnationalization where there is no centre node that dominates the organization. We are talking about a much more autonomous distributed network of firms.

This research is adopting the network perspective of internationalization to better understand the role of the subsidiaries within country-of-origin industrial agglomeration in emerging countries, specifically in Jiangsu province, China. The research proposes co-location and country-of-origin agglomeration as a factor influencing location choice and as a tool for organizations to move towards the transnationalization of their operations. The objective of this chapter is to present the main theoretical pillars and perspectives on international business that frame this research, the key considerations when a firm decides to go international, as well as the network model of internationalization, where our focus is on the subsidiary.

1.1 Theories and perspectives on International Business

The concepts of internationalization and multinational company are complex, ambiguous and difficult to define. In simple terms, the multinational company is any company that engages in business functions beyond its domestic borders (Cullen and Parboteeah, 2013). More specifically it is the firm that engages in foreign direct investment (FDI) by directly investing in, controlling and managing value-added activities in other countries (Caves, 1996). Although the concept is complex and takes different terms, there is a broad consensus that an MNE is “*an international network that creates accesses, integrates and applies knowledge in multiple locations*” (Almeida *et al.*, 2002: 148).

The multinational firm can be analysed from different perspectives. Based on diverse sources of theories and characteristics such as (1) the core ability as a firm, (2) its organization, (3) the role of headquarters, (4) the main

characteristics of the environment and (5) welfare implications, Forsgren (2008) identifies six perspectives on the multinational firm: the dominating, coordinating, knowing, designing, networking and politicizing multinationals. The general view of a multinational firm is that its corporate management processes superior information about world markets, formulates clear strategies for the development of the corporation, allocates resources in accordance with these strategies to the most promising markets and controls operations wherever they are performed. Nevertheless, as Forsgren *et al.* (2005) point out, the reality is not as perfect as the general view, and strategic plans are frequently thrown over, resource allocations are affected by power relations, or corporate management has only vague ideas about business in most of the countries concerned.

From a strategic and progressive point of view, Villarreal (2005) describes the internationalization of the firm as “*a corporate strategy of growth by international geographic diversification, through an evolving and dynamic long-term process that gradually affects the different activities within the value chain and the organizational structure of the company, with a growing commitment and involvement of s and capabilities with the international environment, and based on an augmentative knowledge*” (Villarreal, translated, 2005: 58). In the literature, we can find different theories, authors and perspectives that describe the internationalization of the firms:

The economic perspective is based on cost-benefits relationships and competitive advantages of the firms to decide whether to invest in foreign countries or not. Within this perspective, we find the industrial organization theory (Hymer, 1976), the internalization theory (Buckley and Casson, 1976), Dunning’s eclectic paradigm (Dunning, 1988) or the macroeconomic approach (Kojima, 1982). This view is not very dynamic and takes internationalization as a rational decision making process so the manager has an analyst role. The market selection will be determined by location advantages and economic factors (costs, economies of scale, or competitive advantages).

Process perspectives consider internationalization as a series of steps that are taken sometimes gradually but also in an accelerated way by skipping some of those steps. The main contributions to this perspectives are the Uppsala model (Johanson and Vahlne, 1977, 1990), the innovation approach (Cavusgil, 1980), the life cycle model (Vernon, 1966, 1971), or the models of Jordi Canals (1994) and Way Station (Yip and Monti, 1998). The process perspective and specially the models of Vernon, Canals and Way Station seem to provide a more realistic view of how companies operate as they consider the knowledge acquisition of those markets and the commitment of resources that firms have towards entering in new markets (economic and attitudinal reasons). The managers adopt a role of someone with knowledge and experience.

This gradual approach has evolved into a new vision of an accelerated process (Madsen and Servais, 1997; Oviatt and McDougall, 1994), where firms are born global or go international in the first years of their existence. These companies are usually engaged in high technology, focused on innovation, are subjected to very dynamic environments and their managers are entrepreneurial. Other denominations for these firms are the international new ventures, global star-ups, high technology start-ups, micromultinationals. They are often characterized by having an extensive network of collaborators and strategic allies. It is therefore an approach that evolves from that traditional incremental process perspective suggested by the Nordic school.

Finally, we would like to mention the networks approach, which considers the internationalization as a logical development of inter-organizational and social networks. This approach considers that through co-operation, businesses are effectively reducing their growth limits and uncertainties generated when entering new markets. The model of Johanson and Mattson (1998) or the revisited Uppsala model (Johanson and Vahlne (2009) are framed within this approach. These theories explain how companies are internationalized through networks in countries that are new, and integrate the positions that they have in different networks of different countries. The managers of this type of firms do not focus on the internal barriers to internationalization, but on the

identification of those resources and opportunities that can be acquired through a well-coordinated network.

From a knowledge, risks and experience point of view, the Uppsala model is important as well as Dunning's paradigm is for the consideration of the location.

However, this research will mainly focus on the network view of internationalization. This perspective will be especially relevant to explain and analyse how network based organizational forms such as clusters can foster and promote the internationalization of the firms. The decision is not that rational but more intuitive and the manager has a role of possessing contacts. This perspective considers the network as a resource and as part of the environment so we can think about the cooperation within the network as an entry mode. We believe the cluster to be a network of firms that provide the value as a new entry strategy.

1.2 The decision of going international

Vermeulen and Barkema (2002) operationalized international expansion and they subsume three separate decisions: initial market entries, sequential investments, and divestments. Each of these strategic decisions draws on different sets of capabilities within management teams, and places different stresses on internal systems, structures, and processes, affecting the MNE's overall performance in distinct ways. Within this section, we will analyse why, how, when and where firms go international, as well as what they internalize.

1.2.1 Reasons to go international (Why?)

In general, companies might find internal or external triggers to go international (Hollensen, 1998). When internationalizing into distant markets, Ulrich *et al.* (2014) found that within internal factors, the control, flexibility and risk were evaluated less important than personnel and financial resources, while for external factors, the most important was the market potential,

whereas the trade barriers, cultural distance or the political and economical risk were viewed as the main obstacles. The company could adopt a proactive or reactive attitude towards these drivers (Stewart and McAuley, 1999) Proactive motivations are mainly linked to those internal desires of the firm to take advantage of the opportunities identified and make use of its capabilities and competences. The reactive factors instead, are seen as a response to both internal and external pressures.

The growth opportunities that internationalization offers are linked to an international market expansion can be seen as a motivation for companies to go international. They could be interested on increasing their profits, their market share, improve their position within the value chain or reduce the dependency on the local domestic market. Cuervo-Cazurra *et al.* (2015) recently reviewed the motives for internationalization and described them as the result of the interaction among two dimensions, (1) an economics-driven exploitation of existing resources or exploration of new resources, and (2) a psychology-driven search for better host country conditions or avoidance of poor home country conditions. These two dimensions result in four internationalization motives: (1) sell more, in which the company exploits existing resources at home and obtains better host country conditions; (2) buy better, in which the company exploits existing resources abroad and avoids poor home country conditions; (3) upgrade, in which the company explores for new resources, and it obtains better host country conditions; and (4) escape, in which the company explores for new resources and avoids poor home country conditions.

Internalisation theory (Buckley and Casson, 1976) and Dunning's (1988) eclectic paradigm of ownership, internationalisation and location advantages (OLI paradigm) are some of the most accepted theories that explain why firms decide to establish units abroad. OLI paradigm provides a framework to explain that the existence of multinational firm is determined by **three** conditions: (a) having ownership advantages that allow the firm to compete internationally, (b) it is more beneficial to exploit these advantages its own than someone else exploiting them (licenses, other), (c) it is better to locate those activities abroad, and (d) the international activity of the firm is

perceived by the managers as coherent with the company's long-term strategy. It is true that the paradigm offers a more general view, but, as Dunning (2001) himself explains, the framework has some limitations: (a) it studies the multinational firm but is mainly used for analysing the determinants of international production, (b) it mainly analyses FDI *vis a vis* other entry modes, (c) it has a marginal application to SMEs. Besides, from a dynamic perspective, the framework does not complete the revision on industrial configurations that are based on networks, and does not tackle the role that both managers and location have on these processes.

Those three elements of the OLI paradigm are considered the conditions and the driver for companies to effectively transfer their activities abroad. The theory suggests a framework to explain why MNEs choose FDI rather than other modes such as licensing, joint ventures, etc. Ownership advantages (O) are the resources (material or immaterial) of the firm that are transferable across borders and enable them to have competitive advantages abroad. These ownership advantages enable MNEs to overcome the liability of outsidership (Peng and Meyer, 2011) and earn supernatural profits in several markets (Gooderham, 2007). Location (L) advantages could be the existence of raw materials, lower costs, etc. of those locations, which explain the nature and destination of FDI, especially for efficiency-seeking firms. (I) Internalization refers to the advantages of own production rather than producing through a partnership.

Researchers and academics have come up with different classifications that explain the reasons that a firm has to go international. Chang (2006) argues that firms go international for the following four reasons: (1) to exploit cost advantages in order to compete with rivals (resource-seeking), (2) to follow their competitors and maintain their position in the global market (oligopolistic interaction), (3) to serve and provide a better service to clients (follow-the-client), and (4) to expand the business to other markets by using their ownership advantages (market-seeking). Peng and Meyer (2011) proposed the following 4 reasons (1) to pursue natural resources (minerals, oil, renewables, etc.) in certain locations (natural resource-seeking), (2) to go after countries

that offer strong demand for their products and services or to be located close to the customer (market-seeking), (3) to go to efficient locations featuring a combination of scale economies and low-cost factors (efficiency-seeking) or (4) to go to target countries and regions renowned for generating world-class innovations (innovation-seeking).

Dunning (1993) proposed four types of FDI motivations: (1) to acquire resources that are not available at home or available at a lower cost (resource-seeking), (2) to exploit markets of bigger dimensions, to follow suppliers and customers, goods to the local needs, or save logistic costs (market-seeking), (3) to take advantage of differences in the availability and costs of factors and take advantage of the economies of scale and scope (efficiency-seeking), and (4) to acquire and complement a new technology rather than exploiting existing assets (strategic-asset seeking). Meyer (2015) argues that the concept strategic-asset seeking FDI describes an important type of FDI is not captured by the other three motives (natural resource seeking, market seeking and efficiency seeking) but that the label may not be well chosen as it lacks consistent usage and interpretation and some scholars suggest is redundant. He proposes the use of 'knowledge seeking' (Chung and Alcacer, 2002; Li et al, 2012), asset-augmenting (Narula and Zanfei 2004), or 'resource augmenting' (Meyer *et al.*, 2009) to better capture the description of this category.

Some authors argue that many classifications have been done from the point of view of firms in developed countries and do not take into account the reverse investment flows from emerging countries to developed economies (for example from China to Germany). Thus, they insist on considering not only the traditional motives that seek for market and efficiency but also those that emphasize natural-resource seeking and innovation-seeking reasons (Lu *et al.*, 2011). In this line, Catwell and Mudambi (2005) state that MNCs locate in a host country with a motivation to either exploit or explore their resources and Jain *et al.* (2016) found that when an MNC wants to exploit their resources they internationalize with a market-seeking or resource-seeking motive, whereas they are likely to explore new resources with an asset-seeking motive.

In sum, we can say that firms go international basically searching for cheaper or more available productive factors (natural resources, work, capital), market reasons (market size, growth, position or presence of clients) or strategic assets (knowledge, innovation, know-how) in the local setting.

1.2.2 Going international (What? Where?)

IB theories with attention towards how created (e.g. institutions) along with natural locational assets (e.g. natural resources) influence the location decisions of MNEs (Kim and Aguilera, 2016). Institutions, especially in emerging economies such as India or China but also in advanced economies can play a critical role when it comes to creating the appropriate business environment that includes infrastructure, resources, knowledge, and skills needed by firms. Government policies often use industrial clusters as a development strategy that provides those factors and attract investment.

However, current international business literature has also established a linkage among the reasons (why firms internationalize), the location (where they do it) and activity (what do they bring abroad). In this sense, we no longer talk about markets but about the reorganization of the productive activity (Buckley and Ghauri, 2004). The economic downturn that begun in 2007 has highlighted this reorganization and relocation of the business activities. The term “delocalization” (sometimes called delocation) has been continuously been mention in the media, business and political debates, often to refer to companies closing down their operations and transferring their activities to emerging countries.

Other concepts such as outsourcing and offshoring have also been an object of study and debate (Oshri *et al.* 2015; Gunasekaran *et al.*, 2015; Lahiri, 2016). The delocalization of activities involves the migration of their activities from one country to another but, regardless of its motivation and underlying strategy, this phenomenon should be interpreted in the context of the so-called offshoring or international fragmentation of the value chain (Carballo-Cruz, 2012). Outsourcing is defined as turning over an organizational activity to an

outside supplier that will perform it on behalf of the focal firm, and it can take place at home or internationally. The decision to outsource is often related to a geographical dimension. When activities are moved from a firm's main country of operations to another country, we talk of offshoring. Offshoring then is an organizational strategy where the firms decide to transfer to other countries specific parts of their business processes. When this offshoring is internal, i.e. setting up subsidiaries abroad (in-house work but foreign location) this is called captive offshoring or multilocation.

Carballo-Cruz (2012) differentiated passive (defensive) and active (proactive) reorganization strategies. Passive strategies imply the closure of factories in response to the restructuring of the production activities of the parent firm (usually a multinational) and which is usually motivated by cost reduction needs. On the other hand, active strategy means that some activities are delocalized in order to increase the efficiency or expand the activities internationally. This distinction is important, as it is not the same to delocalize a firm or an activity.

Jensen and Pedersen (2011) analysed the economic geography of offshoring and found that while manufacturing is relocated to low-cost destinations, research and development is relocated to high-cost destinations. Besides, Asia attracts as many advanced activities as Western Europe while North America attracts more advanced activities even in manufacturing. Central and Eastern Europe attract offshoring in manufacturing and IT, but the activities that are offshored to these regions are typically not advanced. This research shows that the nature of the activity is an important determinant of location choice of the firm. Lamin and Limainis (2013) also found that upgrading or "catch up" motivations influence location choice in emerging economies. In terms of relocation in China, although companies have started to move toward lower labour costs in inland China, the higher transport cost and pipeline inventory of these regions are offsetting the labour cost benefits (Tate *et al.*, 2014). As wages are increasing sharply in China, countries such as Vietnam or even Mexico are attracting the attention of foreign investors.

Until the late 1980s the most relevant theory of international business was that of Dunning's (1988) OLI paradigm. The model proposes that not only the structure and organization of the firm influences FDI but other factors such as ownership, location and internalization also have their influence. Specifically, the location advantages (existence of raw materials, lower costs, etc.) explain the nature and destination of FDI. There is a relationship among the FDI reasons and the location choice. For instance, Dunning (2000) pointed that efficiency-seeking FDI in developing countries tends to look for locations that offer an adequate supply of cost-effective, semi-skilled labour, a good physical infrastructure, market-friendly government policies and minimal distance-related transaction costs.

Recently authors such as Kim and Aguilera (2016) or Nielsen *et al.* (2017) reviewed the research done on location choice and emphasized its importance on current IB, economics and economic geography literature. Their work provide a guide for future research but is limited to examining the foreign location choices from a quantitative approach. Assunção *et al.* (2013) present a review about the most important determinants of FDI or location advantages that take into account different theories such as OLI paradigm, the institutional approach or trade theories. Some of the most relevant location factors include infrastructure, the openness of the economy, the natural resources, the market size and growth, the role of the institutions, macroeconomic and monetary policies, human capital, or the production costs. Current research has also focused on how factors such as the degree of development of the host economy moderates the influence and moderate this location advantages for FDI (Ramirez- Alesón and Fleta- Asín, 2016)

The literature that deals with *where* to go international has focused on the country level variables (country risk, level of development, market size/growth, etc.) and how these factors influence the choice of establishment mode and performance. The argument is based on the idea that the more uncertain the destination is, the higher is the preference to adopt low commitment entry modes. This view however neglects the locational differences within a country

(subnational, regional, provincial level), which may have an influence in mitigating the investors liabilities or determine the entry mode decision.

In contrast, another set of scholars, rooted more specifically in the economic geography literature, have drawn attention to the regional aspects of location (Beugelsdijk *et al.* 2010). The focus of such research has predominantly been on clusters and the existence of locally embedded networks as a source of location advantages. Ellison and Glaeser (1997) claimed that firms locate near each other because proximity reduces transportation costs for goods, people and ideas. Chen (2009) found that urbanization, foreign-specific agglomeration and industry diversity have positive impact on FDI location and that other factors such as market size, wage, education, road density, government policy and trade cost also have significant impact of FDI location.

The relationship between investment and clusters can be seen no longer with clusters as the outcome of FDI, but as the precondition or determinant for attracting FDI (De Propris and Driffield, 2006). This is in line with Mucchielli and Yu (2011) that concluded that strategy-seeking investment are determined by the existence of agglomerations. Specifically, they identified four location determinants: (1) the market potential (demand seeking), (2) the cost reduction (production cost and efficiency seeking), (3) policy effect determined by local incentive policies (policy seeking), and (4) the existing country-of-origin agglomeration and presence of local firms (strategy seeking).

Country-of-origin agglomeration has then been taken as a strategy seeking choice where firms are attracted to locate nearby compatriot firms. However, some empirical studies show that these types of clusters are also attractive for firms with other investment reasons. Specifically, smaller investors, with a state background or those that seek market expansion (market seeking) tend to co-locate with their compatriots in the host country, while investors who seek strategic assets (strategic seeking) are more likely to tap into industry clusters (Shen and Puig, 2015). Looking at 31 Spanish firms in China, Puig *et al.*, (2016) found that manufacturing firms -efficiency seekers –were more associated with clustered locations than trading-service firms -market seekers.

1.2.3 Entering foreign markets (How?)

The choice of how to enter and to localize in foreign markets is one of the most critical decisions in firms' strategy (Agarwal and Ramaswami, 1992; Brouthers, 2013; Dikova and Brouthers, 2016). However, while some scholars are questioning the need of more entry mode studies (Shaver, 2013), others call for research on entry mode that combine theories, apply new methods or link it to performance (Meyer, 2015; Dikova and Brouthers, 2016). Regarding entry modes, which depend on country, industry, firm and project-specific factors, there are two sets of strategies: (1) transfer-related entry modes and (2) FDI-related entry modes. The different forms within these two strategies range from low control/low commitment entry modes such as representative or branch offices, licensing, subcontracting, international leasing or franchising, or counter trade, to high control entry modes such as cooperative or equity JVs, wholly owned subsidiaries and umbrella investment companies.

In the literature of entry modes, usually four types of modes can be identified according to the level of ownership (WOFE vs. JV) and establishment mode (greenfield vs. acquisitions). Although several options will probably be available when a company is considering entering a foreign market, decision will have to be made considering the desired or necessary levels of control, capital investment, and expected profitability (Baourakis *et al.*, 2007). High-control entry modes (such as FDI) require a stronger commitment to and involvement in foreign markets, thereby providing greater access to the bases of knowledge that exist in these markets (Zahra *et al.*, 2000).

The adequacy of the different entry modes will depend mainly on the degree of control and the commitment that the firm wants to adopt. Some other determining factors to select the entry mode could be industry-level determinants (sector, concentration level of the industry, entry barriers etc.), country and localization determinants (cultural conditions, institutional context, regulatory environment, economic indicators, etc.) or firm-level determinants (property, size, experience, product type, technology level, etc.). If we focus on manufacturing firms for example, those from home countries with low risk

propensity cultures typically preferred joint venture modes (Brouthers and Brouthers, 2003; Kogut and Singh, 1988) while wholly owned modes are preferred by manufacturing firms that have experience in the region (Kim and Hwang, 1992). The entry modes also vary with time and in China for instance, many firms convert their international joint ventures (IJV) into wholly owned subsidiaries (WFOE). Puck *et al.* (2009) found that factors such as the acquisition of local knowledge, the level of asset specificity, the perceived external uncertainty, the cultural distance or the internal isomorphic pressures influence the likelihood of foreign firms towards this conversion. Coe *et al.* (1997) found that in China foreign firms are motivated to form alliances with other foreign firms to reduce their investment risks, to capture growing markets or to facilitate their operations.

One of the elements that could influence more on the international performance or foreign entry mode of firms is that of the cultural distance between the home and host country (López Duarte *et al.*, 2015). As Barkema *et al.* (1996) found, cultural distance is a crucial factor in foreign entry and the longevity of foreign entries improves whenever the expanding firm engaged in prior entries in the same country and in other countries in the same cultural block. Cultural diversity could generate costs to the investing firm due to the liabilities of foreignness (LOF) (Zaheer, 1995). This liability refers to the fact that foreign companies suffer additional costs as compared to local firms due to the lack of information about the country, economy, laws, culture, etc., which are related to psychic distance (Hymer, 1976, Zaheer, 1995). The influential work of Kogut and Singh (1988) found that JVs are preferred in culturally distant markets.

Schwens *et al.* (2011) studied the influence of the host country institutional context on entry mode choice by analysing 227 German SMEs and demonstrated that the influence of international experience, proprietary know-how and strategic importance on SME mode choice is contingent on the institutional context of the host country. This is, the institutional risk and institutional distance are moderating rather than directly influencing determinants of entry mode.

Uppsala model predicts a sequential increase of commitments through four successive stages, also called 'the establishment chain' (Johanson and Vahlne, 1977) which shows that evolution from exports to manufacturing subsidiaries: Stage 1) no regular export activities; Stage 2) export via independent agents; Stage 3) creation of an offshore sales subsidiary; Stage 4) overseas production facilities. Johanson and Mattsson (1988) present a model that attempts to explain entry mode decisions in relation to the internationalization stage of the market (low, high) and the internationalization stage of the firm (low, high).

However, as mentioned previously on this research, the phenomena of international new ventures (Oviatt and McDougall, 1994) or born global firms (Freeman and Cavusgil, 2007), or even the use of acquisitions could be seen as theories and practices that decline the validity of the “establishment chain” of the Uppsala model. “Born-globals” and “international new ventures” tend to draw resources from network relationships (Coviello and Munro, 1997). As current studies have found (Dominguez and Mayrhofer, 2017) the internationalization process of SMEs continues to follow several stages, but their commitment to foreign markets may increase, decrease and re-increase, which reflect characteristics of different internationalization models proposed in the literature. According to Carlos (2011) social capital via those network relationships can provide access to knowledge and resources that are not available via market exchanges, and facilitate the development of new capabilities by promoting a constant flow of information from various external and internal sources.

In sum, we have seen that the internationalization of the firm is reliant on many factors, and that there are a wide number of aspects that need to be considered to explain why and how internationalization takes place. In terms of the reasons, it is important to point out the nature of the decisions (reactive or proactive) while regarding the mode, the destination and the distance (especially geographical and institutional) are key aspects. We have also seen that it is important to take into account the activity that is going to be internationalized. To analyse when this processes happen, the life cycle theory of Vernon (1966) could have shed some light. However, we have intentionally

omit this area as our analysis is focused on manufacturing firms and how they go international, specifically through business networks.

In this sense, our literature review allows us to say that little attention has been paid to the role of social networks in foreign market entry, especially in the context of SMEs. Previous research (Holm *et al.*, 1996; Chen and Chen, 1998; Chetty and Holm, 2000; Zhao and Hsu, 2007) have shown that social capital embedded in business networks can help reduce psychic distance and influence foreign market entry decisions. The firms that enter a market that is not highly internationalized tend to follow the route of agents by investing in those relationships, or acquire a firm with an established position in the international network to benefit from its knowledge and network links (Susman, 2007). Susman (2007) describes that the network approach emphasizes an evolutionary growth pattern (not staged) and indicates that firms internationalize through a process in which bonds and relationships are developed, which might culminate in formal entry mode arrangements. Social networking can be seen as a tool for foreign investors to reduce their uncertainty and overcome entry barriers when going international. A more detailed analysis is shown in the next section.

1.3 Network model of Internationalization

Having mentioned before that the focus of this research is on the network perspective; this section will describe how the network perspective has been applied to research on international business.

Some of the most relevant authors on the field, Bartlett and Ghosal (1990: 603), define the multinational corporation as “*a group of geographically dispersed and goal-disparate organizations that include its headquarters and the different national subsidiaries*”. They focus on an inter-organizational network perspective where that network is embedded in an external network constituting of all other organizations such as customers, suppliers, regulators, and so on, with which the different units of the multinational must interact.

Gulati *et al.* (2000) argue that incorporating network into strategic analysis leads to a greater insight into firms conduct and performance. Kogut and Chang (1991) considered the MNE as a set of resource options that could be allocated to different locations, depending on the firm's organizational experience gained through coordinating an international network of subsidiaries. A number of studies (Coviello and Munro, 1995, 1997; Welch and Welch, 1996; Chen and Chen, 1998; Ellis, 2000; Chetty and Holm, 2000; Elango and Pattnaik, 2007; Loane and Bell, 2006) have demonstrated the role of network in the internationalization of the firms. Other authors have identified the network approach as appropriate to analyse the internationalization of SMEs (Johanson and Mattson, 1988, McDougall, 1989).

The network approach to internationalization considers the internationalization process as a logical development of inter-organizational and social network of companies (Johanson and Mattson, 1998; Larson, 1992). Under this approach, the relationships within the international network in home and foreign markets provide market knowledge that moderate the effect of psychic distance and accelerate the internationalization process of the firms (Johanson, Mattsson, 1988; Mathews, 2002; Häkansson and Johanson, 2001; Zuchella, Scabini, 2007). It is proven that network insiders' international performance is significantly better than outsiders' (Almodovar and Rugman, 2015).

According to the literature, we can consider the development of a network and cooperative relationships not only as an entry mode but as a source of information about opportunities in foreign markets and a way to minimize risks of international operations. We find the network perspective especially relevant for our study, as there are important limitations to what MNEs can achieve with hierarchical coordination, particularly when it comes to knowledge-sharing between subsidiaries (Noorderhaven and Harzing, 2009).

In general, there are some characteristics that could summarize how the multinational firm is seen from a business network perspective. Internationalization is seen as the establishment of a position in a foreign business network. So this view gives more autonomy to the subsidiary and its

network and considers that the subsidiary can also strategically influence other units of the firm. The headquarter is an outsider to the business network in which the subsidiary is embedded, so it may happen that the HQ does not know which activities should be coordinated and controlled. From the network perspective a network is seen as a strategic resource and a source of knowledge and the multinational firm is less hierarchical and more of a federative character.

Let's look closer at some of the specific network models of internationalization.

1.3.1 Model of Johanson and Mattson

Johanson and Mattson's (1988) model uses the social network theory to explain how companies internationalize through networks. The basic assumption of this model is that companies need resources that are controlled by other companies but that can be obtained due to its position within the network. They argue that as companies become international, the number of actors that have to interact through the network increases and relations with these become more tight (Trujillo *et al.*, 2006). This phenomenon evolves in different ways:

- (1) They form relationships with partners in countries that are new to internationalized companies (international expansion);
- (2) The commitment with the established networks (penetration) increases; and
- (3) The positions that exist in the networks between different countries are integrated.

In any of these forms, internationalization involves exploiting the network advantages and having activities in the network that allow the company to maintain relationships that help them access both resources and markets. Johanson and Mattsson (1993: 306) described internationalization as a *"cumulative process, in which relationships are continually established, maintained, developed, broken and dissolved in order to achieve the objectives*

of the firm". The basic assumption of this model is that companies need resources that are controlled by other companies but that can be obtained due to its position within the network. As Welch and Welch (1996: 12) argue: *"The development and utilization of foreign networks is ... closely related to the learning process that underlies overall internationalization. Indeed, an important part of a company's knowledge is often created and maintained through actors in its relevant networks."*

In addition, depending on the degree of internationalization of the market and the degree of internationalization of the company, these authors identify four categories or firm level international situations (figure 2): the Early Starter, the Late Starter, the Lonely International and the International among others (Johanson and Mattson, 1988).

Figure 2. Model networks Johanson and Mattson

		Degree of internationalization of the market	
		Low	High
Degree of internationalization of the firm	Low	The Early Starter	The Late Starter
	High	The Lonely International	The International Among Others

Source: Johanson and Mattson, 1998

Depending on degree of internationalization of the market the firms will have more or less channels with foreign networks and thus, more or less acquisition of knowledge from the network. This means that, as suggested on the Uppsala model that we will revise in the following section, experiential knowledge matters but the degree of internationalization of the network is also influential as it acts as a sort of multiplier on the experiential knowledge levels of the firms (Hadley and Wilson, 2003).

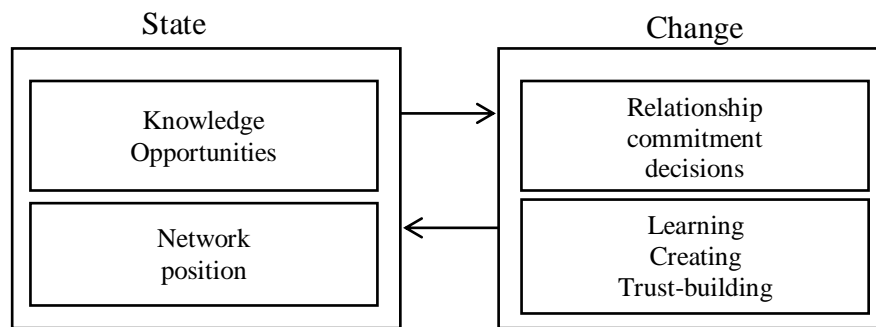
According to Trujillo *et al.* (206) while the network model considered that companies get information about foreign market opportunities through their network members (strategic partners, dealers, etc.), it can be extended to interactions with other influential entities in the sector (governments,

international organizations, industry associations, etc.). The contribution of this idea is that it is possible to use the "lobby" as a strategy of going to new foreign markets. Another contribution of this model is to consider that searching for strategic partners can be a mode of entry into international markets and that can be linked to risk management. Likewise, the existence of social networks can explain cases of internationalization of small and medium size companies that have no previous experience in the international markets. Finally, this perspective reinforces the argument that explains how companies could have an advantage prior to the internationalization process.

1.3.2 Revisited Uppsala Model

Johanson and Vahlne (2009) recently revised their original 1977 Uppsala internationalization process model (Figure 3) by changing their view toward a network perspective where firms' business environments are seen as webs of relationships (exchange in one relationship is linked to exchange in another) rather than as a neoclassical market with many independent suppliers and customers. The new model does not focus on the LOF and country barriers (economic, institutional, cultural, political barriers) and but on the LOO and the network barriers that emphasize the need to establish relationship with other members to obtain market knowledge. One of the main considerations of this model is that insidership to a network (to be well established in a network) can be developed even before the entry in a new market, which emphasizes the importance of networks and business relationships.

As the authors explain, on one hand internationalization is seen as the outcome of firm's actions to strengthen network positions to improve or protect their position in the market (Johanson and Vahlne, 2009). On the other hand, as networks are borderless, the distinction between entry and expansion in the foreign market is less relevant. The new model thus combines the process model and the network approach.

Figure 3: The business network internationalization process model

Source: Johanson and Vahlne, 2009

In the business network theory, both market commitment and market knowledge have a better-defined meaning than in the original model. Market commitment is mainly comprised of commitments to specific business relationships in a business network (network position in the new model). As authors explain, there are two kinds of decisions regarding the commitment to a relationship: (1) to develop new relationships (with businesses or bridges to new networks) and fill structural holes or (2) to protect or support firms' existing network of strategic relationships. Market knowledge largely consists of knowledge about business partners' capabilities developed through exchange with these partners (knowledge opportunities in the new model). Researchers have long recognized that the routines and knowledge accumulated in the home country are of limited usefulness when it comes to expanding abroad (Aharoni, 1966).

Consequently, the internationalization of a firm is about the investment (of time, resources, etc.) that is done to develop relationships with business partners abroad.

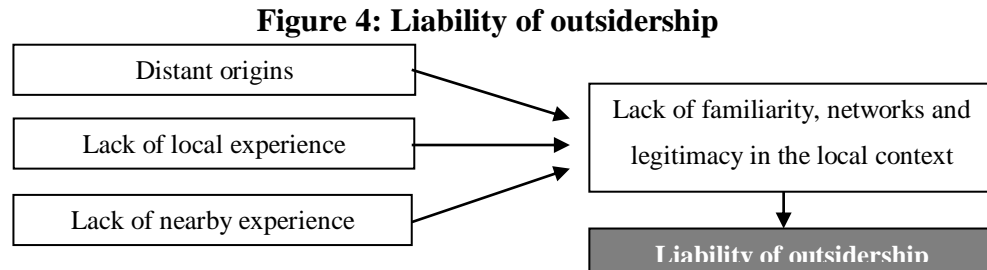
Ardichvili *et al.* (2003) proposed a theory of the opportunity identification process where they identified entrepreneur's personality traits, social networks, and prior knowledge as antecedents of entrepreneurial alertness to business opportunities. Consistent with the view that opportunity identification is a side effect of an ongoing business relationship, Johanson and Vahlne (2009) believe that opportunity exploration and exploitation overlap. The authors propose that a firm can make use of its existing business relationships to identify and exploit

opportunities, and that those knowledge opportunities could be an important driver of the firms' internationalization. The new model also takes into account some components of knowledge, capabilities, strategies and networks of directly and indirectly related firms in their institutional contexts (Carlos, 2011). The relationship-specific knowledge (about others resources and capabilities), the prior experience of the managerial team or some other emotional dimensions of relationships such as trust or commitment building play an important role on the model. As authors mention, the interplay between the processes of learning, creating opportunities, and building trust is described well by Nahapiet and Ghoshal (1998), although they use the concepts of intellectual capital and social capital.

The original model suggested that the lack of knowledge about the foreign market is the main obstacle to international operations and that such knowledge must be acquired by being present in the foreign market. Besides, that model stated that firms tend to follow the so-called "establishment chain", that is, to start with indirect export, then to use agents or distributors, then to end up with more fully fledged operations in terms of establishing their own sales or production subsidiaries. However, according to Forsgren (2008), it is much more difficult to predict the chain of events with the business network approach and it may be less relevant as well, as the aim focus on the business relationships.

According to the network perspective, successful entry into a foreign market involves much more than building a factory in a foreign country or writing a contract with a local firm. It requires a basic understanding of the relevant foreign business network and the firm must acquire knowledge about who are the important players in the network and how they are related to each other. The theory assumes that such knowledge cannot be acquired without first-hand experience so the firm must be an insider of the network. When a firm enters in a new market where it has no existing connection, "outsidership" (more than psychic distance) is seen as the reasons for difficulties in establishing there. Johanson and Vahlne call this phenomenon the "liability of outsidership" (LoO) and propose that this liability can be overcome through a learning

process after which building of trust and commitment can begin. Peng and Meyer (2011: 12) define this term as “*the inherent disadvantage that outsiders experience in a new environment because of their lack of familiarity*” (see Figure 4).



Source: Peng and Meyer (2011)

Foreignness in terms of the Uppsala 2009 model could complicate the process of becoming an “insider” (firm that is well established in a relevant network or networks). Firms change by learning from their experience of operations, current activities, in foreign markets. This change happens through the commitment decisions that they make to strengthen their position in the foreign market. Experience builds a firm’s knowledge of a market, and that body of knowledge influences decisions about the level of commitment and the activities that subsequently grow out of them. This leads to the next level of commitment, which engenders more learning still. The model is descriptive, behavioural and dynamic. It adds trust building and knowledge (developed in relationships) creation to the original model.

So, the concept of LOO explains us that when entering a foreign market the business market knowledge (business environment) and previous relationships with business actors in that market matter. According to Johanson and Vahlne (2009), this liability is likely to be higher for new comers and for those entering with no local partners and co-location with other foreign entrants provides knowledge that can enable a foreign entrant to overcome the liability of outsidership. Regarding the mode of entry, first-time entrants with wholly owned investments experience a higher degree of outsidership (Tan and Meyer, 2011). As several authors (Johanson and Vahlne, 2009; Tan and Meyer, 2011) argue, new investors have a greater need for local knowledge, which

drives them to locate in country-of-origin agglomeration to reduce their liability of outsidership.

Organizational factors such as the firm size can also be influencing the companies' decisions to establish social network ties or adopting different entry mode strategies. Ownership advantages of the OLI paradigm are the resources of the firm that are transferable across borders and enable them to have competitive advantages abroad. These ownership advantages enable MNEs to overcome the liability of outsidership (Peng and Meyer, 2011) and earn supernatural profits in several markets (Gooderham, 2007).

The concepts of LOF and LOO seem to be close to that of strategic vulnerability (especially external strategic vulnerability) described by Gnyawali *et al.*, (2009). They describe a vulnerable subsidiary the one that is challenged with a reduction in its competitive advantage that may endanger its profitability and reputation in the short run and/or its sustained survival in the long run. Internal strategic vulnerability decreases performance (sales, revenues, innovation, expansion in geographic and product market, etc.) and external strategic vulnerability could come from environmental turbulence, new competitors, technology or cultural unfamiliarity. As the economic landscape becomes more complex and competitive, firms need to reduce uncertainty, which can predict tie formation. Thus, the higher the degree of LOF, LOO and strategic vulnerability of the subsidiaries, the higher their willingness to develop inter-subsidary ties and the higher their knowledge networking capability will be.

The core idea of the Uppsala new model is that markets are networks of relationships among actors, so insidership becomes a success factor for the firms willing to internationalize as inter-firm ties and relationships offer the possibility for learning and trust building, which enhances their commitment. According to Johanson and Vahlne (2009) the research that has been done generally has studied the ways in which networks influence internationalization, without discussing how those networks have been created, and without considering the network structure in the country or countries firms

entered. Our research will shed light on the formation and behaviour of those networks at the host country level.

1.4 The subsidiary at the centre

The literature review in this section is concerned with the activities and responsibilities of the subsidiary firms, and how these entities are linked to other firms inside and outside the MNE.

One basic assumption in business network theory is that a multinational firm consists of several business actors rather than just one (Forsgren, 2008). As Birkinshaw and Pedersen (2008) argue, researchers of MNE subsidiaries, in fact, find themselves in a rather strange position. On the one hand, the subsidiary is at the heart of the actions in the MNE, especially with regards to such issues as integration and responsiveness, sourcing of inputs, inter-unit coordination, knowledge creation and transfer, or strategic control. Consequently, MNEs are building global network of subsidiaries where subsidiaries obtain key roles for sourcing and creation of knowledge as well as for penetrating important markets. On the other hand, the subsidiary company *per se* is something of an endangered species.

Most MNE have now moved towards some variant of the global business unit structure in their international operations, and a corresponding dilution in the power and responsibilities of the country manager. The result is that the national subsidiary no longer exists in most developed countries. Instead, there is a series of discrete value-adding activities (a sales operation, a manufacturing plant, an R&D centre) each of which reports through its own business unit or functional line. In this sense, Birkinshaw and Pedersen (2008) see a subsidiary as a discrete value-adding activity outside the home country, at a level below the national subsidiary. Let's look closer at the reality of the subsidiaries in the following sections.

1.4.1 Subsidiaries' local embeddedness

In previous sections, we were talking about inter-organizational networks but the focus of this research is on the creation of those networks at the host country level and with geographically proximate firms. In this sense, we need to put special emphasis on describing the network dynamics of subsidiary firms.

Business network theory focuses on the network of business relationships in which a business actor is embedded. The “embeddedness” perspective takes the economic activity as a network of business links, including the networks of members that do not have a market-based relationship (Oliver, 1996). The key under this perspective is to consider the social capital as a network of relationships that constitute a valuable resource for the firms (Molina-Morales, 2005). Many multinational companies now function as differentiated networks, rather than as hierarchically run organizations where all national subsidiaries play similar roles (Nohria and Ghoshal, 1994; Rugman and Verbeke, 2003).

Andersson *et al.* (2002) describe some different views on the conceptualization of network embeddedness. First, it can be seen as a strategic resource influencing the firm's future capability and expected performance. In this sense, performance can vary between firms in terms of their differences in network embeddedness. The second view suggest that embeddedness is a continuous variable as it develops over time from arm's-length relationships to relationships based on adaptation and trust. Third, most researchers recognize that embeddedness is a strategic resource with a relational and structural dimensions.

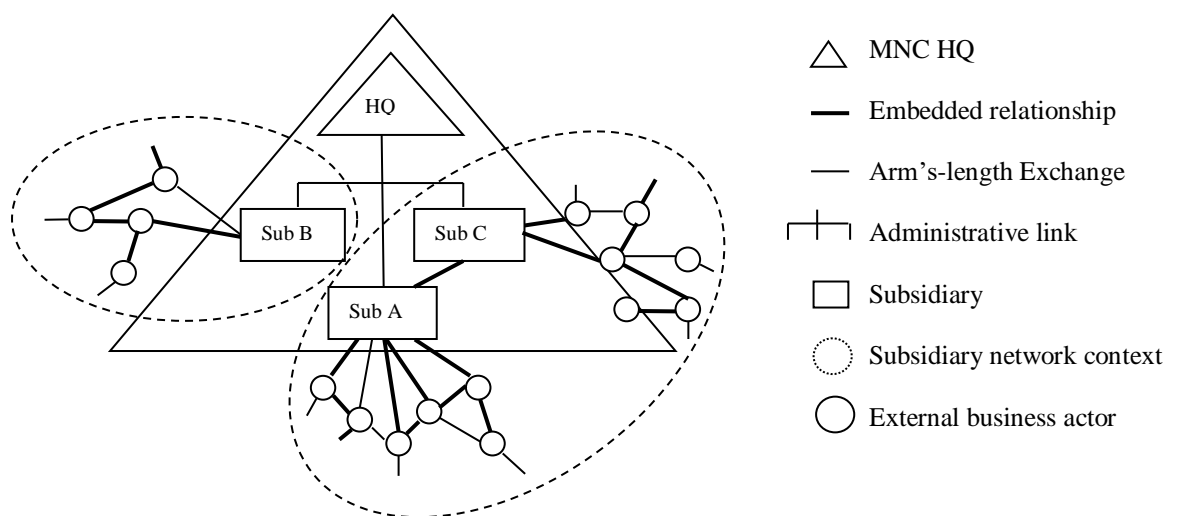
The relational embeddedness focuses on the role of direct cohesive ties that give access to information (Gulati, 1998). Applied to a MNC context, it refers to the extent to which the subsidiary's individual and direct relationships with customers, suppliers, competitors, etc. can serve as source of learning. As Andersson *et al.* (2002) explain, this means that a firm does not have equal capacity to learn from all organizations as; the stronger the actors are tied, the

easier is to exchange information and therefore learn from it. On the other hand, structural embeddedness focuses on the system of business relationships of the subsidiary and highlights the advantage a subsidiary has from its position in the network rather than from the information exchange in individual relationships (Granovetter, 1992; Gulati, 1998; Nahapiet and Ghoshal, 1998; Rowley *et al.*, 2000).

Regarding more specific literature on MNE subsidiary embeddedness authors such as Rugman and Verbeke (2001), Johanson and Vahlne (2009), Figueiredo (2011) and Tallman and Chacar (2011) focus on the relationships among the subsidiary and the host country or the local network to analyse aspects such as the access to location advantages, role of institutions or the creation of subsidiary-specific advantages. The idea behind this view is that some resources and capabilities are developed at a firm level while other at a subsidiary level. What is clear then is that the subsidiary is embedded in the MNE network and in its local business network.

As shown in the figure 5, Forsgren (2008) represent this conceptualization of the multinational firm as a configuration of the business network in which the subsidiaries are embedded:

Figure 5: The multinational firm in business network theory

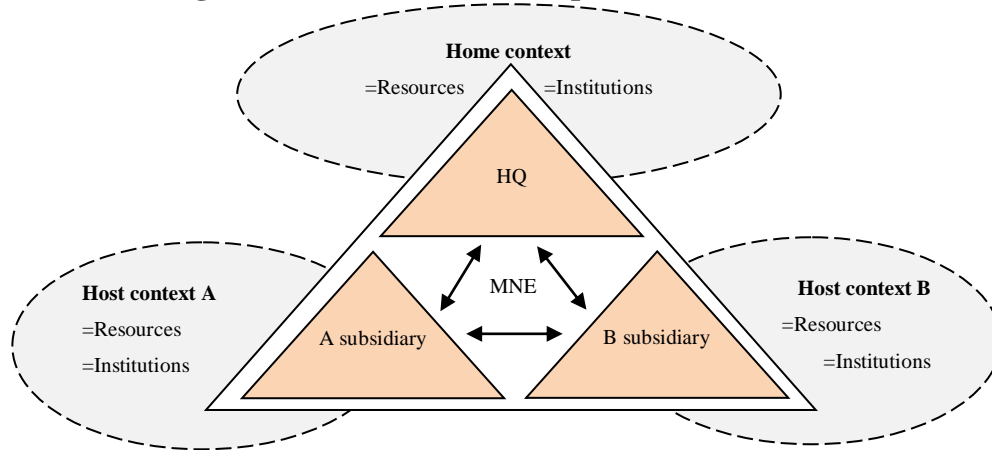


Source: Forsgren (2008, p.109)

The corporate context is illustrated in “the MNC triangle”. The differentiated network approach treat the actors closest to the subsidiaries as being selected on administrative and legal grounds rather than on business grounds, which means that some of the subsidiaries’ highly important business partners are treated in a superficial way because they are external to the multinational firm. The concept of network in this approach is related to the legal grounds and does not include the business relationships with external actors. In contrast, the business network theory analyses the business relationships surrounding the subsidiary. The corporate context in this theory is just part of the picture as the network of each subsidiary is also important.

If we analyse the multinational firm by looking at its home and host context, we observe that each of the actors are embedded in contexts where the institutional frameworks and resource endowments vary. The home context has to do with the influence on the organizational practices and strategies of the local context of the corporate headquarters. According to Meyer *et al.* (2011), different elements at the home context will shape the overseas activities: the resource endowment at the home country (Tan and Meyer, 2010), the MNEs’ embeddedness in their home contexts (Narula, 2002); or preferred organizational practices (Rosenzweig and Singh, 1991), entry strategies (Harzing, 2002) and brand images (Nebenzahl and Jaffe, 1997) of the different nationalities.

The host contexts are the ones in which the MNE is also embedded through its local subsidiaries. As Meyer *et al.* (2011) mention, international business researchers have investigated this notion using the concepts of psychic distance (Johanson and Vahlne, 1977), cultural distance (Kogust and Singh, 1988) and institutional distance (Estrin *et al.*, 2009, Kostova, 1999). Local embeddedness refers to “*the extent to which a subsidiary has established relationships with local institutions such as suppliers, customers, and research institutions*” (Mu *et al.*, 2007: 82). The interaction of MNEs with their various local contexts depends on how these contexts relate to each other.

Figure 6. Multinational Enterprise and local context

Source: Peng and Meyer, 2011: 467

There is some potential for tension between the business network role and the role defined through its corporate context. Within what is considered as economies of common governance (i.e. HQ and subsidiaries), the multinational firms are able to tap into a particular advantage that arises from the spatial dispersion of its activities (Madhok, 2015). According to this author, the MNC manages diverse subsidiary local knowledge but it has the challenge of identifying the most valuable knowledge, which it does through maintaining a hierarchy that coordinates that knowledge. The subsidiaries under study then have a dual role, one within their internal MNC network (as the HQ give them a role according to the company's strategy) and another one within their external network.

Although traditionally MNC innovation originates in the HQs, subsidiary innovation is increasingly challenging this view. Much of the knowledge that the subsidiary creates by learning from its local environments may be kept within the subsidiary and used to enhance its own performance. However, recent MNC literature (Björkman *et al.*, 2004; Zhao and Luo, 2005; Figueiredo, 2011) suggests that subsidiaries contribute to the knowledge base of the MNC by transferring that knowledge to the HQs or other peer subsidiaries.

The organizational design problem is to choose organizational instruments of control, motivation and context in such a way that subsidiaries access and produce knowledge, communication is established between those who need

and those who possess knowledge, and the relevant subsidiary knowledge is available for other MNC units (Foss and Pedersen, 2002). Each subsidiary is generating knowledge through the interactions of people within the subsidiary, and through the interaction of the subsidiary with (1) other units of the MNE and (2) with people and organizations in its local context, but outside the MNE (Peng and Meyer, 2011).

From the MNE's perspective, lack of local embeddedness will restrict the ability to acquire locally-based innovation, but lack of internal embeddedness will restrict the ability to assimilate and leverage such innovation throughout the corporation (Tallman and Chacar, 2011). A local embeddedness, subsidiary top management team heterogeneity and MNC corporate entrepreneurial culture are the key enablers for subsidiaries to learn and innovate in the local environments (Mu *et al.*, 2007). Figueiredo (2011) found that (1) subsidiaries that were able to develop knowledge-intensive linkages with specific internal and external counterparts simultaneously and based on continually increased frequency and improved quality achieved higher innovative performance levels than subsidiaries that developed such linkages with limited frequency and unchanged quality over time; and (2) some counterparts and linkages were more effective than others in terms of contributing to the subsidiaries' innovative performance.

The subsidiary has relationships with individual actors and absorbs new knowledge from that environment, which has a positive impact on its own market performance. Each subsidiary maintains unique and idiosyncratic patterns of network linkages and consequently is differentially exposed to new knowledge, ideas and opportunities (Forsgren, 2008; McEvily and Zaheer, 1999, Andersson *et al.*, 2002). In fact, this differential exposure has been put forward as one of the basic competitive advantages of the multinational firm, because it increases the breadth and variety of its network resources (Malnight, 1996, in Andersson *et al.*, 2002). Gulati (1999) introduced the concept of "network resources" to explain the advantages that members of inter-firm networks had in terms of access to information and/or resources. Furthermore, the subsidiary does not only play a role to absorb knowledge, identify

opportunities or access resources, but also could influence on the strategy of the headquarters.

The subsidiary accessing these network resources will have an impact on the subsidiary's competitive capability in its own market and through the transfer of these capabilities from the focused subsidiary to other MNC units, the competence of the MNC as a whole will be upgraded (Andersson *et al.*, 2002). However, as Andersson *et al.* (2007) argue, the subsidiary will only obtain a better position in the MNE when its external network linkages transform into superior and relevant knowledge.

1.4.2 Subsidiary's strategy and role

The unit of analysis in international business research first moved from the country level (especially on FDI) to the firm level (MNE and parent's firm specific advantages) but currently the MNE is increasingly been analysed as a network, where the subsidiary becomes the main unit of analysis (Rugman *et al.*, 2011a). The network conceptualization of the MNE takes the subsidiary not as a subordinate entity but a node in a network with links to external and internal actors and a greater degree of freedom (Birkinshaw and Pedersen, 2008). This view has been applied to subsidiary research by different authors such as Anderson, Fosgren and Holm (2002); Birkinshaw and Hood (1998); or Gupta and Govindarajan (2000). It considers that subsidiaries are units with their own network and business agenda.

Our research takes the subsidiary at the forefront. As explained before, in the network view of the MNE the HQs are not superior to subsidiaries and the organization of the firm is more of a federation or heterarchy one. Then, the role of the subsidiaries comes as an important concept to be described. The more complex multinational organizational structures support participation strategies that include direct investments in foreign countries. This means setting up foreign subsidiaries, but several types of foreign subsidiaries are used by MNCs.

A distinction is often made between subsidiary strategy and subsidiary role. A subsidiary's role is assigned to it by the parent company and the subsidiary just follows those mandates. Subsidiary strategy, by contrast, suggests some level of choice or self-determination on the part of the subsidiary. Obviously, there are constraints imposed from above and by the marketplace, but the underlying premise is that decisions are made by subsidiary managers, not HQ managers on their behalf (Birkinshaw and Pedersen, 2008).

Subsidiary strategy is about how two elements, the market-positioning and the resource development elements are brought together. Birkinshaw and Pedersen (2008) argue that choices about product-market positioning are increasingly being taken out of the hands of the subsidiary managers and taken up to a corporate level; but those aspects concerned with resource and capability development are still under the control of subsidiary managers.

If we consider the subsidiary a valid unit of analysis in its own right and we focus on the resource and capability development, it is possible to split resources and capabilities up between the subsidiary and the MNE. Resources are defined as the stock of available factors owned or controlled by the firm, and capabilities are a firm's capacity to deploy resources, usually in combination, using organizational processes to effect a desired end (Amit and Schoemaker 1993). According to Andersson *et al.* (2002), a firm's network can be seen as a resource in itself. Through the social network, the firm gets access to resources and capabilities outside the organization, such as capital, goods, services, innovations, etc. The network is created through a path-dependent process and is, therefore, idiosyncratic and difficult to imitate. Consequently, the resources which are accessible through the network are also relatively inimitable and non-substitutable (Gulati, 1999; Andersson *et al.*, 2002).

If the resource and capability development is seen as a strategy in hands of the subsidiary managers, the development of those networks will facilitate the access to those relatively inimitable and non-substitutable resources. This framework can help us define which resources and capabilities held by subsidiaries located clusters.

Literature on subsidiary roles help us understand better the stream related to the specialized roles taken by subsidiaries within the MNE. Related to the MNEs strategies that are associated to the role of the subsidiaries two strands of literature have emerged. The traditional literature analyses the hierarchical control relationships developed by parent companies and the power and control centralization systems (corporate level analysis), which relates to the competence-exploiting subsidiaries. More recent literature has continued to be set out mainly at the level of the corporate group, but it has focused on the distinction between competence-creating and competence-exploiting subsidiaries in the internationally integrated network of the MNE (Cantwell and Mudambi, 2001).

The second strand of recent literature has instead begun to examine strategy at the level of the subsidiary (rather than the level of corporate group) but focusing on subsidiaries that have acquired a competence-creating role or gained strategic independence (Cantwell and Mudambi, 2001). For instance, while competence-creating mandate are related to strategic asset-seeking and home-base augmenting investments, competence- exploiting roles are related to assembly-type, market-serving and home-base exploiting investments, and their location is not the major centre of excellence or a key hub (Cantwell and Mudambi, 2001). Competence-creating subsidiaries require greater degree of strategic independence, which leads to more complex organizational strategies. As Bartlett and Ghoshal (1986:94) long time ago suggested: *“International subsidiaries shouldn’t just be pipelines to move products. Their own special strengths can help build competitive advantage. The best way to exploit this resource is not through centralized direction and control but through a cooperative effort and co-option of dispersed capabilities”*.

If we consider that MNEs no longer persist as hierarchical organizations and that the knowledge could be created throughout all the MNE’s network of firms, then subsidiaries have more important roles than implementing the decisions taken by the headquarters. According to Mu *et al.* (2007), a corporate entrepreneurial culture that provides autonomy to subsidiaries and encourages

open communication, experimentation, new initiatives, and risk taking by managers is likely to spur learning and innovations.

Cullen (2002) argue that multinationals choose the mix of functions of their subsidiaries based on several issues, including (1) the firms’ multinational strategy or strategies, (2) the subsidiaries capabilities and resources, (3) the economic and political risk of building and managing a subunit in another country, and (4) how the subsidiaries fit into the overall multinational organizational structure. Cullen distinguishes the minireplica subsidiary and the transnational subsidiary (Table 1):

Table 1. Minireplica vs. transnational subsidiary

Minireplica subsidiary	Transnational subsidiary
<ul style="list-style-type: none"> ✓ Smaller version of the parent company, using the same technology and produces the same products as the parent company ✓ For companies pursuing a multidomestic strategy, the foreign subsidiary often becomes a “minireplica” of the parent company (Beamish <i>et al.</i>, 1994) ✓ By producing strictly for the local market, the minireplica can adapt to local conditions. ✓ It uses few expatriate managers ✓ Local managers run the organization often with little influence from headquarters ✓ If considered as a profit centre, the headquarters evaluates local managers based on the unit’s profitability and using financial performance information such as return on investment ✓ Seldom they contribute to corporation-wide goals such as providing R&D or manufacturing for other locations around the world 	<ul style="list-style-type: none"> ✓ Has no companywide form of function (each subsidiary does what it does best or most efficiently anywhere in the world) ✓ It supports a multinational-firm strategy based on location advantages: factor costs (e.g. cheaper labour or raw materials), other resources (educated workforce or unique skills), and gain access to the country. ✓ It may produce some products that it adapts to the local tastes. ✓ They can provide information to the parent about local markets, help solve problems for any other unit in the world, or develop new technologies

Source: derived from Cullen (2002)

The positioning of this research is closer to the transnational view of the subsidiary. This means that the subsidiary gains from location advantages to support the company’s strategy and it is much more adapted and integrated to the local setting.

1.4.3 Subsidiary's dual network and knowledge role

Literature on MNC suggests that foreign subsidiaries play a very important role on the acquisition and creation of knowledge at the host country that can contribute to the knowledge base of the MNC (Almeida and Phene, 2004; Zhao and Luo, 2005). Frost (2001, p.1010) argues that subsidiaries can be a source of competitive advantage for the multinationals in the sense that they have “*the capacity of their foreign subsidiaries to generate innovations based on stimuli and resources resident in the heterogeneous host country environments in which they operate*”. Bartlett and Ghoshal (1989) suggest that knowledge can be transferred from the subsidiary to the parent firm and enable innovations. In order to generate reverse knowledge (related to competence creation taxonomy), first the subsidiary must understand the nexus within which local knowledge resides and tap into this network to “capture” local knowledge. Authors such as Govindarajan and Ramamurti (2011) have started to pay attention to the reverse innovation that originate at the host-country settings. Then it needs to use its connectivity within the MNE's network to transfer the knowledge.

In other words, leveraging local knowledge networks requires solving a “dual-network” problem. They need to be embedded within the local milieu to generate knowledge access and inflows, while being embedded within the MNE's internal network for the knowledge to be transferred and used through the MNE (Meyer *et al.*, 2011).

From this perspective, subsidiaries must be able to access and internalize locally embedded knowledge and then transmit it throughout the MNE's network of units. Its role in both networks is interdependent and can result from its own strategic choice (Birkinshaw and Hood, 1998). As the subsidiary moves from being and implementer of HQ policies to acquiring a global mandate through its strategic choice, it can develop its own specific capabilities with regard to acquiring, creating, and disseminating knowledge (Gnyawali *et al.*, 2009). Gnyawali *et al.* (2009) argued that subsidiary knowledge networking capability -the ability to form, manage, and leverage a network for

gaining and sharing knowledge- is critical for subsidiaries and by extension the MNC, to achieve a competitive advantage. As Almeida and Phene (2004) found, the subsidiary's knowledge linkages to host country firms have positive impact on its innovation.

According to Cantwell and Mudambi (2001), different factors may influence the likelihood of a subsidiary to gain competence-creating mandate. Regarding the characteristics of location, the subsidiaries will be more likely to gain that mandate on behalf of their corporate group in a region with a good local infrastructure, a science base and a more skilled work force. In terms of the strategic independence achieved by the subsidiary, the MNE may allow some of its subsidiaries a higher degree of independence to take advantage of the innovative opportunities derived from the different locations, while having an integrated network structure that permits some coordination of their efforts. Foss and Pedersen (2002) found that autonomy significantly and positively affect the knowledge transfer and flows to other subsidiaries, especially with subsidiaries tapping into local clusters.

From a HQ point of view, Gnyawali *et al.* (2009) identified three ways in which the HQ could support a knowledge tie, foster a culture of collaboration and effective knowledge creation and transfer: 1) instituting mechanisms for effective communication and exchange, 2) providing greater autonomy, and 3) allocating necessary resources. According to Birkinshaw and Pedersen (2008), the differentiation on "who controls what" creates a problem as strategy-making is all about ensuring that the market and resource sides of the equation fit together. Corporate level managers do not understand the unique resources and capabilities in the subsidiaries, whereas subsidiary managers have the knowledge, but not necessarily the power to fulfil this role. Subsidiary managers often identify with the subsidiary and the host country, and naturally prefer to strengthen their subsidiary.

To solve this dilemma, Birkinshaw and Pedersen (2008) propose the following: (1) systems for ensuring that subsidiary managers are involved in market-facing decisions, (2) a shift in emphasis in subsidiary roles towards greater

depth and less breadth (“focused factory”), (3) more focus on specifying interfaces between the activities of the different subsidiaries (interdependency, complementation, substitution), (4) internal-market structures (find the efficient global integration), and (5) systems for sharing knowledge (involving things such as IT-based knowledge exchange, informal networks or international teams). All this is focused on creating a structure where a subsidiary manager is her/his own boss and an integral part of the corporate network. In line with this, Miao *et al.* (2011) argue that the parent company often needs to exert strong control over foreign subsidiaries to create synergies and leverage inter-unit interdependencies, so, the new ideas that come out in the subsidiaries are constrained by the parent’s strategic need to integrate subsidiary activities. To overcome this barrier, Miao *et al.* (2011) suggest that MNCs need more sophisticated control mechanisms (e.g. cultural control) to enable subsidiary managers to contribute to the corporate goals without limiting their willingness to try new creative ideas in the foreign environment.

As Noorderhaven and Harzing (2009) argue, as subsidiaries in network-type MNEs may play very different roles, they may consequently have very different kinds of knowledge inflow and outflow. Gupta and Govindarajan (2000) describe four generic subsidiary roles in terms of knowledge flow patterns: global innovator (high outflow, low inflow), integrated player (high outflow, high inflow), implementer (low outflow, high inflow), and local innovator (low outflow, low inflow). In the global innovator role, the subsidiary served as a fountainhead of knowledge for other units. The integrated player role is similar as it implies creating knowledge that can be used by other subsidiaries but is not self-sufficient in the fulfilment of its own knowledge needs. The implementer role means that the subsidiary does not engage in knowledge creation of its own and relies on knowledge inflows from either the parent or peer subsidiaries. The local innovator implies that the subsidiary has almost complete local responsibility for the creation of relevant know-how in all key functional areas. However, this knowledge is seen as too idiosyncratic to be of much competitive use outside of the country in which is located.

Transnational MNEs have multi-directional flows of knowledge (Luo and Peng, 1999). Particularly fundamental to transnational MNEs is knowledge flows among dispersed subsidiaries. Instead of a top-down hierarchy, the MNE thus can be conceptualized as an integrated network of subsidiaries (sometimes called a "N-form"), each not only developing locally relevant knowledge but also aspiring to contribute globally beneficial knowledge that enhances corporate-wide competitiveness of the MNE as a whole.

Transnational corporations (TNCs) have today come to dominate many industrial sectors, and we can also discern a pattern of small and medium sized firms becoming transnational at a very early stage (Malmberg *et al.*, 1996). One fruitful way of conceptualizing the transnational corporation is as a complex relational network, that is, as a network of internalized, intra-firm relationships embedded within networks of externalized, extra-firm relationships. Because the TNC, by definition, is a multi-locational firm operating across national boundaries, it has the potential to manipulate geographical space and to use places as an intrinsic part of its competitive strategies. Thus, the ability to control space and the ability to utilise the resources (in the broadest sense) of specific places are diagnostic characteristics of TNCs although, of course, the nature and effectiveness of such control varies enormously from firm to firm (Dicken, 2002).

Sometimes, divisional headquarters and all development activities for certain business areas are concentrated to local milieu outside the home country (Dunning 1994; Zander 1994; Cantwell 1995). Sometimes, TNCs have built up insider positions through long-term investments, but more often TNCs become insiders by acquiring local firms with full-fledged operations and established local networks. Along these lines, some authors have argued that TNCs which have built insider positions in several local milieux, are now becoming engaged in the integration of innovative activities across their geographically dispersed units (Prahalad and Doz 1987; Bartlett and Ghoshal 1990a; Hedlund and Rolander 1990). Miao *et al.* (2011) suggest that MNCs should provide opportunities for subsidiary managers to build communication networks with other subsidiaries in the same or neighbouring region, so that they can

effectively share relevant information and combine their capabilities to build regional firm-specific competitive advantages. In well-established TNCs, the geographically dispersed network of subsidiaries becomes a means for rapid knowledge exchange, leading to the development of unique advantages from the integration of the global corporate system (Malmberg *et al.*, 1996).

Bartlett and Ghoshal (2002) categorize the MNEs into “global”, international”, “multidomestic”, and “transnational”. The roles mentioned before reflect the functioning of the ‘transnational solution’ (Rugman *et al.* 2011), as national subsidiaries have diverse but interdependent roles within the MNE network depending upon access to country-specific location advantages and internal competences, that jointly determine their charter and relative autonomy. The following table 2 summarises the key organizational and knowledge management characteristics of these companies:

Table 2. Knowledge management and organizational characteristics in four types of multinational enterprises

ORGANIZATION	Multidomestic	Global	International	Transnational
STRATEGY	Localization	Global integration	Home replication	Transnational
Configuration of assets and capabilities	Decentralized and nationally self-sufficient	Centralized and globally scaled	Sources of core competencies centralized, others decentralized	Dispersed, interdependent, and specialized
Role of overseas operations and foreign subsidiary	Sensing and exploiting local opportunities	Implementing parent company strategies	Adapting and leveraging parent company competencies	Differentiated contributions by national units to integrated worldwide operations
Development and diffusion of knowledge	Knowledge developed and retained within each unit	Knowledge developed and retained at the centre	Knowledge developed at the centre and transferred to overseas units	Knowledge developed jointly and shared worldwide
Interdependence	Low	Moderate	Moderate	High
Flow of knowledge	Limited flow of knowledge and people in both directions (to and from the centre)	Extensive flow of knowledge and people from centre and key locations to subsidiaries	Extensive flow of knowledge and people from headquarters to subsidiaries	Extensive flow of knowledge and people in multiple directions

Source: adapted from Peng and Meyer (2011) and Bartlett and Ghoshal (2002)

According to Bartlett and Ghoshal (2002) to build and manage the transnational organization as an effective strategic entity, management faces several administrative challenges (Table 3).

Table 3. Building and managing the transnational firm

Strategic capability	Organizational characteristics	Management tasks
Global competitiveness	Dispersed and interdependent assets and resources	Legitimizing diverse perspectives and capabilities
Multinational flexibility	Differentiated and specialized subsidiary roles	Developing multiple and flexible coordination processes
Worldwide learning	Joint development and worldwide sharing of knowledge	Building shared vision and individual commitment

Source: Bartlett and Ghoshal, 2002: 77

For our research, the most interesting perspective is that of a transnational corporation view as we aim to look at the worldwide learning capability of the organization by looking at the knowledge acquisition from country subsidiaries co-located near the firms' subsidiary, as well as the transfer of that knowledge to the other units within the company and corporation.

1.5 Conclusions and hypothesis

Some prior studies have shown that investment motivation has a significant impact on MNEs' location preference. Dunning's OLI paradigm argues that the FDI decision of MNEs the localization decision depends on the entry reason of the firm. There could be internal or external triggers for the firms to expand their activities across borders, they could adopt a proactive or reactive attitude but in general, the reasons have to do with obtaining resources, accessing new markets, increasing their efficiency or improving their strategic position. Besides, location advantages such as the existence of raw materials, access to skilled labour, good physical infrastructure, lower costs, etc.) could influence the nature and destination of that investment abroad.

Depending on different degrees of control, risk, resource commitment and knowledge firms could opt for diverse entry modes in foreign markets (from

exports to manufacturing subsidiaries for instance). Each mode have different advantages and disadvantages. For instance, a joint venture could be advisable in low risk cultures to get quicker access to markets, share costs or leverage partner's skill base (culture, business system, etc.) but a wholly-owned firm with whole control could better protect know-how or adapt the operations to needs.

But, which are the entry and location determinants of firms who access with the same entry mode (WFOE) and establish their activity in the same location (Kunshan, China) in the host country? In this research, we argue that, it is the effect of the network and knowledge spillovers that determines the entry and location strategy. From our point of view, the existence of networks could also be a source of location advantage. Furthermore, we believe that the effect of the network and knowledge spillovers is what determines the entry and location strategy of the firms. In line with Garcia-Canal *et al.* (2002) that found that alliances can increase the speed of internationalization, firms may be willing to internationalize their operations through networks in order to make that process faster. We consider the country-of-origin cluster as an alternative entry strategy that benefits from both the acquisition of local market knowledge through cluster members while maintaining the full control of the firm.

Theories on international business show us that multinational firms are social communities with disperse knowledge around the world, that a gradual process will be based on the knowledge and the acquired cumulative experience but that networks could provide organizational, social and strategic assets that support the process. The higher the knowledge about the market, the stronger the commitment and the less the liability of foreignness would be. The network model, however, sees the internationalization of a firm as the time and resources invested in developing relationships that help managers evaluate business opportunities. From this point of view, successful entry into a foreign market requires knowledge and involvement in networks. These inter-firm ties and relationships offer learning and trust building, which enhance commitment in foreign markets and reduce their liability of outsidership. Therefore, it could

be that, even with no experience, firms obtain the necessary knowledge, resources and capabilities needed to success internationally through networks.

For firms to move forward towards a transnational strategy that tries to establish more corporate industrial poles worldwide, the subunits should be empowered to adopt a more creative role that fosters trust building and the development of a culture of knowledge sharing within the social network created between the co-located subsidiaries. A creative, integrated player and strategic leader role of the subsidiaries located in the park could have a positive influence on the acquisition and transfer of local knowledge, as the subsidiary is seen as a key partner in the network that could help in developing and implementing its own strategy. The MNE is no longer seen only as an economically and politically actor, but a social agent too. This means that the MNE operates as a legitimate actor within the institutional settings in which it operates (Reimann *et al.*, 2012) and is concerned with not only the generation of profits but generating social value (Sinkovics *et al.*, 2014).

Our research is framed within a transnational view of the multinational firms, as it takes the conceptual arguments that are in line with firms that simultaneously highlight global integration and local responsiveness (Bartlett and Ghoshal, 1988). We consider that localization can foster the acquisition of local knowledge and learning from the local environment and global integration can motivate the transfer and sharing of that locally acquired knowledge to other units of the firm. Which roles do the subsidiaries in the park have within each of their “MNE” structure (scope of activity, global integration, autonomy, product-market positioning strategy, resource/capability development strategy, etc.)? How is this affecting their willingness to access and share knowledge from/to other member subsidiaries of the cluster? We can think that the greater the subsidiary autonomy and competence-creating mandate the higher the willingness to engage in collaboration, knowledge sharing and collective learning initiatives within the members in the cluster. A decentralized structure on each of their own companies may facilitate this autonomy. Besides, the subsidiary’s initiative and entrepreneurial orientation

make it identify new opportunities and absorb knowledge, especially in hostile domestic environments.

Considering all this, we propose the following hypothesis:

Hypothesis 1a: The challenges that firms, within their transnationalization processes, find in the host locations differ depending on their entry strategy.

Hypothesis 1b: Within their transnationalization processes, the challenges that firms find in the host locations are magnified when firms have less internationalization, less experience and higher levels of autonomy.

In sum, in this chapter we have seen that firms, within their internationalization processes, face different liabilities and challenges. Understanding the host country and the place is crucial to define their entry strategy and for the successful development of their operations abroad. This makes us understand that the internationalization process of the firms is a complex and dynamic process where subsidiaries play a key role.

Network and knowledge spillovers generated in geographical concentrations of firms are especially relevant to determine the entry and location strategy of the firms and reduce their liabilities in the host country. In this sense, the understanding of the clustering drivers and the different externalities that firms could gain from inter-organizational geographic networks appears to be important. We will look at this topic, geographic inter-organizational networks in the following chapter.

CHAPTER 2: GEOGRAPHICAL INTER-ORGANIZATIONAL NETWORKS: EXTERNALITIES AND DRIVERS

In the previous chapter, we have seen that the geographic networks and clusters of firms are a proper theoretical approach to study the internationalization of firms. Networks have been generally recognized as influential within an internationalization process but few have focused on inter-organizational networks of firms from the same country-of-origin created abroad. This chapter will look at the business relationship and the drivers of cooperation. Taking this into account, we will describe the different types of networks that are created as a result of these drivers. The chapter will conclude with the effect that clustering have, which will make us understand the advantages and the externalities that firms obtain from co-location.

In general, business relationships and networks can be distinguished by their formality level, governance, degree of ownership and coordination of the members, or the attachment to the local setting. Scholars have used many terms to describe the agglomerations of companies and organizational communities. One of the key authors on clusters is Michael Porter, whose various research has tooted and promoted his cluster concept within an overarching focus on the determinants of “competitiveness” (i.e. Porter, 1990).

This resonates closely with the growing importance of competitiveness for succeeding in today’s global economy (Martin and Sunley, 2002, Parrilli, 2009). Firms co-locate in clusters to explore scale economies, to react more easily to the changing environment, to reduce costs or promote innovation. However, the debate about whether globalisation will make clusters and industrial agglomeration more or less important is still open. Those who study clusters that succeeded in international competition tent to focus on the benefits of localization and opportunities of globalization, while those who study regions that have declined will put the attention on the disadvantages of globalization and the decrease of local economic competitiveness.

Theoretically, the importance of location and spatial clustering is likely to decrease as global markets become open (Kishimoto, 2004; Malmberg *et al.*, 1996). It makes sense, as nowadays the geographical boundaries are less limited and due to the improvement of communication channels and reduction of transport costs, the shift from local to global systems of production and knowledge transfer is easier. This has led some researchers to argue that locally derived advantages are no longer as relevant as they were before. On the other hand we may think that specialisation and clustering is becoming even more crucial due to globalisation and the challenges it marks for many firms to be competitive. Authors have argued that intensifying global competition increases the importance of the clustering processes, rather than diminishing it. For example, Scott (2001: 813) states, “*globalization enhances the possibilities of heightened geographic differentiation and locational specialization*”. Therefore, while globalization can spread activities, it can also allow firms and locations with competitive advantage to exploit their position over a geographical area.

Various studies have shown that inter-organizational relationships are associated with company competitiveness (Powell and Brantley, 1992; Uzzi, 1996). The networks formed vary in terms of elements such as their governance, formality, actors involved or degree of coordination. Many comparative studies show the differences among organizational networks in different countries (Forsgren and Johanson, 1992). In fact, inter-organizational relationships appear to be influential in many internationalization issues: foreign market selection (Andersen and Buvik, 2002), market servicing (Welch and Welch, 1996), dynamics of entry (Meyer and Skak, 2002), international market development (Coviello and Munro, 1995), time of internationalization (Oviatt and McDougall, 1994), or strategic choices and performance (Peng and Luo, 2000).

Firms trying to expand their markets prioritize those locations where other firms are already set up, creating geographic agglomerations (Porter, 1998; Shaver and Flyer, 2000). The international business literature has shown that foreign entrants prefer locations with similar firms, mainly due to their

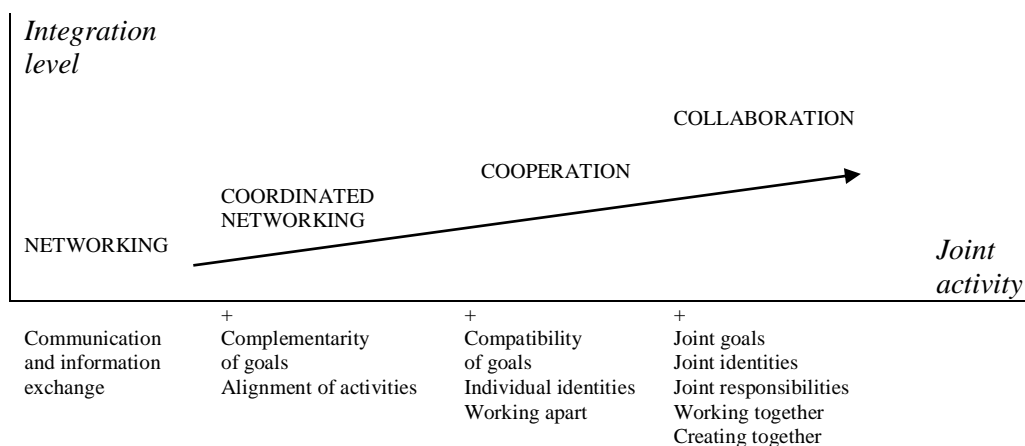
liabilities of foreignness. Particularly, they located near other foreign firms, domestic firms from the same industry, or firms from different industries (Cantwell and Piscitello, 2005; Head *et al.*, 1995; Lee *et al.*, 2012; Smith and Florida, 1994; Chang and Park, 2005; Tan and Meyer, 2011).

When applying this to our case study context we will focus on inter-organizational geographic clusters of subsidiaries in emerging countries. We believe that geographic proximity and agglomeration could be a strong useful tool for companies to reduce their uncertainty when entering in new emerging markets. Firms will normally be more likely to take a particular strategic action when there are other firms that have previously taken too. The social, cultural and historical linkages and networks that firms have on their home country could influence their co-location choice in emerging markets beyond their own market-product-technology rational.

2.1 Business relationships: cooperation, collaboration and drivers

For many people, cooperation and collaboration are indistinguishable concepts. In an attempt to clarify various concepts, Camarinha-Matos and Afsarmanesh (2006) proposed a distinction:

Figure 7. Cooperation and similar concepts



Source: Adapted from Camarinha-Matos and Afsarmanesh (2006)

Each of the concepts constitutes a building block for the next, meaning that networking is the least integrated and on the other side, collaboration would be the term that contains everything from other concepts. The different concepts show different levels of investment on common goal-orientated risk taking, commitment, and resources (Camarinha- Matos *et al.*, 2009).

Research on collaboration has included the comparison of group and individual performance, the reasons or conditions under which collaboration takes place, and the impact of collaboration on other factors such as learning. In general, collaboration is characterized by shared goals, symmetry of structure, and a high degree of negotiation, interactivity, and interdependence.

The benefits from collaboration are closely related to the match between resources and competence of the enterprise on the one hand, and the requirements of its business environment on the other. Competitive strength however, could be related not only to co-operation but also to turnover, cost efficiency, quality of service, variety of products, or competence of employees (Havnes and Hauge, 2004). Ernst (2003) mentions that what impulses the firms to collaborate is the creation of economies of scale and scope and Hoffman and Schlosser (2001) focus on innovation as a driver. Generally speaking, co-operation can be considered a way to stimulate the development of enterprises in terms of reducing risk, extending markets, introducing new technologies, etc. so co-operation can therefore be a strategy for SMEs not only to grow but also to enhance other types of development (Havnes and Hauge, 2004).

Despite of the expectations to gain complementary resources and capabilities, many relationships are frequently prone to failure because the partner firms tend not to recognize *ex ante* the nature and extent of transaction-specific investment that is required in the collaborative relationship to attain these synergies (Madhok and Tallman, 1998).

According to Havnes and Hauge (2004) the literature on SME co-operation discusses a number of objectives, which can be grouped in four categories: need to secure resources (e.g. labour and capital), reduced transaction costs,

efficient access to markets, and learning and access to technology. According to Huxham and Vangen (2005), whose work studies the aspects on collaboration management, there are a number of common bases for collaborative advantages that include: access to resources, shared risk, efficiency, co-ordination and seamlessness, learning, and the moral imperative. Cooperation can help create a common intergroup identity, which will then promote more positive intergroup attitudes and relations (Dovidio *et al.*, 2008). These authors think that the recognition of a common identity while acknowledging other's subgroup identities allows groups to capitalize on the novel ideas and the various perspectives of members of different groups to enhance their effectiveness in achieving success in superordinate goals.

For Ronson and Peterson (2008) highly cooperative groups can provide the strong interpersonal connections and mutual support that lead individuals to happier, more meaningful, more productive lives as psychological states and interpersonal relationships can have strong effects on group performance. This will lead to higher quality decisions that can promote team survival. According to these authors, they classify benefits into: (1) psychological benefits of cooperation to individual group members (improve their emotional state and interpersonal relationships), and (2) benefits of cooperation for group outcomes and performance (open information exchange and better decision making due to trust, confidence and decision acceptance that avoid duplicating efforts, help seeking and learning, positively affect creativity, and match team rules and survival).

Child *et al.* (2005) look at cooperative strategy from a number of different perspectives commonly found in the academic literature. The following table summarizes these views:

Table 4. Different perspectives seen in cooperative strategies

Economic perspectives	
Market-power theory	Cooperative strategies between companies are carried out with the prime purpose of increasing the market power of the partners
Transaction cost economics	In terms of governance, alliances are set up when this form of organization minimizes the transaction costs involved
Agency theory	Agency theory is not concerned with the motivation for an alliance, but with the behaviour of the partners in one. Both are “agents” of the other and as such systems must be set up to reduce the risk of self-serving opportunism taking place in the alliance
Resource-based theory	The resource-based perspective suggests that partners set up alliances often in order to tap into each other’s specialized resources and strategic assets
Transaction-value theory	Transaction value theory holds that even if transaction costs are not minimized, so long as transaction value is maximized, the alliance is justified
Real-options theory	Alliances can be considered a real option to invest under conditions of uncertainty in a new market, a new technology or ultimately in an acquisition
Increasing-returns theory	Increasing returns are norm in Knowledge-based industries, and the formation of a network of alliances enables companies to operate as significant players in such markets
Managerial and organizational perspectives	
Strategic management theory	Emphasizes the need to be clear about the motives for adopting a cooperative strategy The selection of a suitable partner is a key part of success Both strategic fit and sensitivity to the need for cultural fit are key to alliance success
Game theory	It provides valuable insights into the possible attitudes of one’s partner in cooperation Cooperation and competition need to be consciously balanced in alliances Highly self-interested behaviour in business relations tends to be self-defeating Firm-but-fair principles tend to be self-strengthening in alliances
Social network theory	The players (persons or organizations) cooperate on the basis of implicit and open-ended contracts (socially rather than legally binding) The existence of social networks of prior ties often influences the choice of partners for new alliances. They are valuable sources of information for new alliance opportunities The cultural values that lend coherence and identity to social networks may also influence the how alliances are constituted and how they evolve.

	They can reduce coordination costs; and help to assure more flexible organizational arrangements and less costly managerial structure.
Organization theory	<p>In alliances formal equity dominance is not sufficient for control, and can be counterproductive</p> <p>Alliances are a hybrid of hierarchies and networks and therefore have to develop their own special rules of organization</p> <p>There is an inevitable tension between the control and learning motives of partners</p> <p>Trust is key to success of alliances</p>

Source: adapted from Child et al. (2005)

From the different economic, managerial, organizational perspectives in cooperative strategies defined by Child *et al.* (2005) we see that some strategies have motives related to market power, transaction costs and value, or uncertainty while other perspectives focus on the partners, their behaviour, their prior ties and identity, or the rule of organization among the members.

What is called an eclectic theory of alliance motivation (Dunning, 1974) suggests that all alliances are sparked off by a change in external trading conditions and that this change reveals an internal resource inadequacy that needs to be corrected if competitive advantage is to be maintained. The theory is termed eclectic since it exists a long list of both external and internal conditions, any one of each of which is sufficient to provide the ground motivations for an alliance. For example, the external driver for one company might be the need to achieve scale economies to be able to compete on the world market and the internal need might be to fill underutilized factory capacity.

Based on its work on cooperative strategy, Child *et al.* (2005) also argue that strategic motivations for cooperation include some external challenges such as turbulence in world markets and economic uncertainty, existence of economies of scale and /or scope as competitive cost-reducing agents, the globalization of some industries and technology, the shortening product life cycles and so on. Regarding “scale” alliances (where the alliance is to achieve economies of scale and /or reduce development costs) Child *et al.* (2005) give the following

explanation. Technological change has become increasingly rapid and global, which result in a decreasing the difference between regional markets. Globalization of markets has given opportunities to realize economies of scale and scope. The firms that were large enough could adopt new technologies, achieve economies of scale and scope, serve global markets and change its product range regularly. Since few companies had the internal resources to meet these requirements, strategic alliances and other cooperative arrangements were needed. The internal challenges are similar to those previously commented: resource dependence, learning, risk limitation, speed to market, cost minimization or current poor performance.

Let's look more closely at some of the drivers found in the literature:

2.1.1 Access to resources and capabilities

Some scholars have examined the relationship between networks and resource acquisition (Roy *et al.*, 2004, Lechner and Dowling, 2003). According to Gnyawali and Madhavan (2001), networks can offer three types of resources to their partners: asset flows, information flows and status flows. Asset flows incorporate the flow of resources such as money, equipment, technology, and organizational skills between connected firms in a network. Information flow includes the exchange of information and knowledge among the connected firms (about competitive intent, strategies, resources, etc.). Finally, status flows refer to the flows of legitimacy, power, and recognition from high status firms to lower-status firms. This means that networks provide access to several kinds of resources such as information, knowledge or legitimacy.

As reported by various authors (Kotabe and Zhao, 2002; Mesquita *et al.*, 2008) larger firms have more resources and consequently could perform more effectively. It is often argued that small medium-sized enterprises' (SME) need to secure resources is a motive for co-operation but some authors suggest that the resource dimension is overemphasized. Generally, medium-sized firms cooperate for strategic reasons and long-term benefits, while micro and small enterprises co-operate for operational purposes with shorter time-scale for the

expected benefits. Small enterprises and micro enterprises tend to have a higher preference for non-formal co-operation than medium-sized enterprises (Havnes and Hauge, 2004). This is related to the *liability of smallness* of the firms, which refer to the limitations that small firms have in terms of resources and capabilities and thus, environmental changes; which can be measured in terms of financial capital or the number of people employed (Guercini and Milanese, 2016). According to Huxham and Vangen (2005), organizations often collaborate if they are unable to achieve their objectives with their own resources, which sometimes it just means pooling financial or human resources but often implies technology or expertise as well.

From an economic perspective of the firm-level strategy, resource-based theory is a relatively recent approach that has been further developed with a specific focus on knowledge resources or on the complex, embedded combinations of knowledge and skills known as capabilities or competencies. According to this model, only strategic resources that are valuable, rare, inimitable, and non-substitutable can generate competitive advantage (Barney, 1991). It highlights the importance of human competence requirements as a stimulus to embracing a collaborative strategy, as well as to the significance of managing alliances in such a way as to secure motivation and synergy among the staff who are brought together from the previously separate partner organizations. Barney (1991) says that such resources may be physical, human or organizational. It is important to mention that since physical resources could be used up and are replaceable or duplicable, and the human resources can leave, threaten to leave, only organizational resources can generate sustained competitive advantage. Such resources are often referred to as capabilities or competencies, which are seen as bundles of hard assets and knowledge or skills, path dependent, embedded in and dispersed throughout the organization, complex, and tacit or difficult to describe fully.

Foss (1999) defines network capabilities as activities that could provide access to efficient factor markets at relatively low transport costs, benefits from the migration of engineers among enterprises, access to a pool of skilled labour, standardization, or other benefits due to the presence of trusting relations. An

example of such collaboration is enterprises suffering from a limited supply of skilled labour, that decide to set up joint schools and training facilities to qualify workers, rather than to compete on the labour market with each other (Havnes and Hauge, 2004).

From a managerial and organizational point of view, the resource-dependence perspective is concerned with the arrangements that are negotiated between managers and the external stakeholders, or organizational partners, who contribute necessary resources in the expectation of receiving valued returns. It indicates that, when resources and competencies are not readily or sufficiently available to firms, they are more likely to establish ties with other organizations. The specific needs will vary but they can generally be classified as feelings of a specific resource, skills, or competency inadequacy or imbalance. Alone, the potential of each partner's value chains, financial and other resources, core competencies and skills, and networks of contacts is inadequate to achieve its identified objectives, but together the potential synergies from cooperation are perceived as leading to competitive advantage, jointly but not separately available. They are likely when the potential partners anticipate that the benefits of forming a cooperative inter-organizational relationship will exceed its disadvantages, including the cost of managing the linkage and the diminution of decision-making (Child *et al.*, 2005).

Both the resource-based view and the resource-dependence view imply that a strong reason for organizations to collaborate lies in their recognition that they lack competencies on their own. It could be argued that for cooperation to happen, the partners should perceive a mutual resource-exchange where both partners are likely to have different but complementary resource needs, which they perceive their partner can help them to meet.

2.1.2 Reduction of transaction costs

The reduction of transaction costs through networking has been central research topic of the Uppsala School. Transaction costs are those involved in establishing a transaction: ex ante costs to search for the product/service, and to

establish the transaction, the cost of the transaction itself (contract/agreement), and the costs involved in monitoring and enforcing the contract. The transaction costs are those that “*are incurred in arranging, managing, and monitoring transaction across markets, such as the costs of negotiation, drawing up contracts, managing the necessary logistics, and monitoring accounts receivable*” (Child *et al.*, 2005: 19).

It is considered, that when the partners know and trust each other, less administration is required and transaction costs are reduced. Indirect costs include those related to risk (unknown partners or products) and the costs to minimize risk. It may also reduce uncertainties (turbulent markets, emerging technology, new partners and regulatory changes) and therefore reduce transaction costs (Havnes and Hauge, 2004). Regarding risks, Huxham and Vangen (2005) point that the organizations can also collaborate simply because the consequences of failure on a project are too high for the firm to risk taking it on alone, as it can happen in cost-intensive R&D collaborations. Most of the benefits (i.e. reduce risk or benefits from access to information) are indirect and hard to measure in economic terms at enterprise level.

From a spatial point of view, transaction cost advantages are strong drivers for concentrating production and auxiliary activities in one local setting.

2.1.3 Increase efficiency

Huxham and Vangen (2005) look at the efficiency advantage from different perspectives. If efficiency is seen as a problem (as it happens sometimes with public services) this can create public-private partnerships to improve the efficiency. From the notion of economies of scale sometimes adjacently located public authorities collaborate over the provision of a service even though they each have the expertise to deliver it. Similarly, companies may outsource support activities such as cleaning and catering companies that can gain economies of scale (for example in bulk purchase of supplies) by contracting the provision of these services to many firms. A third perspective is concerned with operational efficiency as it happens with supply chain

alliances. A fourth perspective is related to the coordination of public service to avoid duplication in service provision.

Regarding efficient access to markets, the report of the European Commission, Havnes and Hauge (2004) found that access to new and larger markets is one of the most frequent reasons for SME partnerships, especially for micro and small enterprises. Some strategic alliances are created at least in part, as real options on larger investments in particular industries or markets, permitting firms to retain flexibility while also providing first-hand information about the new market to reduce uncertainty (Child *et al.*, 2005). Child *et al.* (2005) argue that alliances are the fastest means of achieving market presence if the partners, together, have strong resources and competencies but alone cannot achieve critical mass. As Burt (1992) argues, personal contacts resulting from SME co-operation may be necessary to introduce the enterprise to new business opportunities.

2.1.4 Co-ordination and seamlessness

Huxham and Vangen (2005) argue that for example, services for families with need related to special education might be holistically serviced through provision of health, social services and education services “co-located” together in a special school building. This “one-stop shop” philosophy has been often used as the basis for collaborations in organizations. Coordination is not however, only or always concerned with seamlessness. Repetition (i.e. duplicating activity), omission (i.e. leaving gaps in activities), divergence (i.e. diluting activity across a range of activities) and counter production (i.e. pursuing conflicting activities) are pitfalls associated with organizations acting without reference to each other that those promoting collaborations seek to address.

2.1.5 Learning and knowledge

Networks potentially provide advantages from learning (Gulati *et al.*, 2000), not only about industry but also about networking itself. In this network

perspective collective learning and network capabilities refer to what the collective of enterprises knows about production of goods and services, the organization of production (network capabilities) and how they in consort learn about it (collective learning) (Havnes and Hauge, 2004). What is needed for successful 'collective learning' is a set of informal institutions such as habits, conventions, rules of conduct, lubricated by cooperative culture and trust (Storper, 1997; Maskell and Malmberg, 1999). These factors are place-specific and supported by regional institutions that play a role of coordinators and facilitators of knowledge exchange and innovation (Storper and Scott, 1995).

Huxham and Vangen (2005) point that while collaboration are commonly set up to pursue some joint activity, some are created with the, on the face of it more modest, aim of mutual learning. Networks of organizations in the same industrial or service sector, or concerned with the same area of public service delivery and networks of organizations (non-profit, public and/or private) in a locality are often created with this as part of their *raison d'être*. Many co-operations are set up in order to transfer tacit knowledge, which cannot be transferred by contractual codified means, and is communicated only by teams working together (Child et al, 2005). It is considered that, the free flow of information among members, is conducive to creativity and innovations.

The work by Powell *et al.* (1996) note that R&D in some industries is positively correlated with the number of alliances. If a firm cannot develop critical knowledge internally or buy it in the marketplace, it could then acquire a firm that has that knowledge or ally with it, but allies permit access to knowledge (even to highly tacit knowledge) with lower commitments, costs and smaller investments than by an acquisition. According to Child *et al.* (2005) effective organizational learning through alliances requires several conditions to be in place such as positive partner intentions, an adequate learning capacity, and the ability to disseminate and apply new knowledge that is learned.

Thus, cooperation helps partners share information and resources, build trust, increase their efficiency and coordination or enhance their collective learning.

Although there is no generally accepted theory of cooperative strategy, these different views provide valuable insights that help identifying the different objectives or expectations that the members could have when thinking about collaborating with other members in the park as well as defining possible common goals. Proximity, as we will describe later on in this research, can be not only geographical but also cognitive or organizational. Thus, the proximity within network members can be seen as one of the drivers to collaboration.

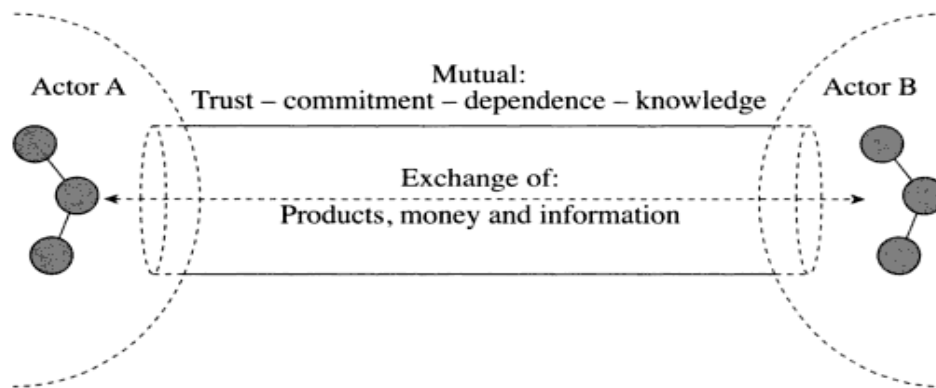
2.2 Geographical inter-organizational networks

As we have seen, relationships in business matter. Business relationships and collaboration among different agents can add value in terms of accessing resources, information, or knowledge. Scholars have used a plethora of terms and concepts to describe networks, organizational communities, or agglomerations. In general, networks of relationships have been recognized as being influential within an internationalization process, but few have focused on inter-organizational networks of firms from the same country-of-origin created abroad. In this section, we will introduce and present some of the main terms around inter-organizational networks and geographic concentration of firms, and explain the characteristics of the network that best fits our research objective, the country-of origin agglomerations.

2.2.1 Networks: conceptualization and characteristics

The business relationships are important as they ensure effective sourcing and marketing, and because they form a basis for the firms' competence development. An important aspect to emphasize on business relationships is that exchange is not just a matter of selling and buying. Forsgren *et al.* (2005) illustrate the business relationships as shown in figure 8. The figure shows the mutuality between the partners in terms of trust, commitment, dependence and knowledge; as well as the dynamic aspects in terms of exchange of products, money and information.

Figure 8. The business relationship



Source: Forsgren *et al.*, 2005: 17

While there may be some formal aspects, developing relationships is essentially an informal process (Powell, 1990). It could be said that developing and working on a relationship that enhances cooperation is a result of considerable investment in time and managerial effort. Dovidio *et al.* (2008) suggest that minority and majority group members should participate and pursue collective goals so that if the outcome is successful intergroup trust will be enhanced and so, the likelihood of cooperation in the future.

An important aspect of the exchange is the exchange of information. Information exchange is thus a matter of coordinating activities and resources between the two firms. As a result of this coordination, activities and resources are adapted and modified in such a way so that joint productivity is improved. In this way business relationships enable the firms involved to create a value that is absent from arm's-length market exchange (Forsgren *et al.*, 2005).

However, a business relationship is a result of previous investment associated with exchange activities with the partner so it may take years of costly activities before the partners have sufficiently demonstrated their willingness and ability to each other to be able to reap the benefits of that relationship. It is a gradual process where the parts involved learn about each other's way of performing. As Forsgren *et al.* (2005) argue, the business relationship is based on trust and mutual knowledge and it comprises intentions, expectations and interpretations. In the early phase the interdependence between the firms is weak, as in ordinary arm's-length market exchange, but it gradually transforms

to a situation where to firms are tied to each other. In general, based on Forsgren *et al.* (2005) we could describe the characteristics of business relationships as:

- They are important sources of capability
- They are developed in interaction between business partners
- They provide a mean for coordinating the activities of the partners
- They represent structural constrains that have to be recognized
- They have to be maintained and developed if they are to remain valuable
- They cannot be understood by those who are not involved
- They expose the firm to partial control on the part of another firm
- Through the relationship, the partners become embedded in a wider network of relationships

The firms operate in networks of connected business relationships and the term *connected* means that exchange in one relationship is linked to exchange in another. These webs of connected relationships are labelled *business networks* (Johanson and Vahlne, 2009). In general, networks are defined as a set of nodes (persons, organisations) linked by a set of social, friendship of a specific type (Cooke, 2001; Breschi and Malebra, 2005). The set of ties in the network could represent some relationship, or lack of relationship, between the nodes (Brass *et al.*, 2004). For García-Canal (1996) the members do not have a relationship of subordination and maintain several cooperative links in order to perform jointly coordinated actions. The member use this organizational form to position the firms at higher competitive levels (Jarillo, 1988).

Contemporary research on interaction between SMEs has been focused on networks, which are described as:

“[...] nodes and branches where the enterprises form the nodes and the relationships between the enterprises form the branches. The relationships are described in qualitative terms, the most important being trust, and transaction or flows. A transaction means that materials, information or economic value are transferred from one partner in the network to another. A line that

connects two nodes in the network theory is that the co-operation in the network is assumed to generate synergy [...] when combining their efforts, the firms can together perform better than the sum of the individual efforts” (Havnes and Hauge, 2004: 14).

Network efficiency depends on the trust and cooperation among networked firms (Håkansson and Johanson, 1993). Networking relationships are “*capabilities that are difficult to duplicate by competitors because they are socially embedded, complex and idiosyncratic, path-dependent and path-creation and they can potentially become the isolating mechanism and a source of competitive advantage for the firm*” (Mu *et al.*, 2007: 96). They are path-dependent as their evolution depends on the interaction history and ties of the firms, and path creative because firms can take advantage of their existing relationships to exploit and explore new relationships.

Disputes arise when deciding whether it is better to understand networks by looking at the ties which form the structure of networks or by analysing the interactions between and among their ties (Jack *et al.*, 2010). As these authors describe, research can be focused on networks (map of ties) or the process of networking (as the examination of the ties). As Puig and Marques (2010) describe, the concept of *network* is far from clear but could be seen from three different perspectives. On the one hand, the organizational perspective (intra-firm) conceptualizes the networks as a response to the challenges of a changing environment. On the other hand, the social perspective highlights the social context of the firms and the web of relationships within the network. The strategic perspective (inter-firm) instead, takes into account the power relationship, degree of specialization and territory.

In sum, for the conceptualization of the networks, there are three aspects to consider actor bonds, activity links and resource ties. The actors can be individuals, teams and organizations. The ties can refer to interactions between them. Therefore, when we look at different definitions on networks we realize that some of the main elements of the concept are:

- They are formed by a set of nodes that could be individuals, work units or organizations
- The relationships or lack of relationships between those nodes could be described in terms of trust, materials, information, knowledge or economic factors.
- These network relationships could be a source of competitive advantages as they are capabilities that are difficult to duplicate by competitors.
- The nodes cooperate and to generate synergies and improve their individual performance (with no relationship of subordination)

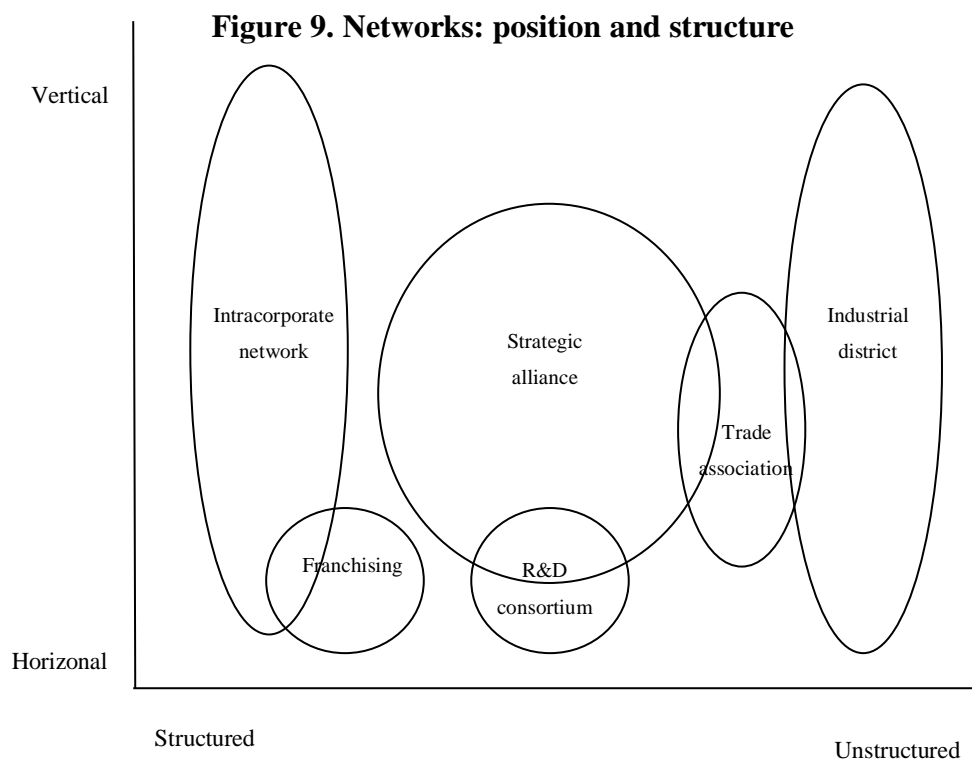
2.2.2 Types of networks and country-of-origin clusters

Studies on agglomeration business are well established (Shaver and Flyer, 2000; Chang and Park 2005; McCann and Folta 2008) and a subset of this literature examines what types of agglomeration are chosen by MNCs when entering a foreign market (Alfaro and Chen, 2014). Since the mid-1990s, the agglomeration of foreign direct investment (FDI) has received increasing attention in the literature of locational determinants of FDI, especially when it comes to distant markets.

Scholars have used a plethora of terms to describe the organizational community phenomenon, from regional industrial districts and clusters, to incubator regions, industrial systems, milieux innovateurs, production systems or hot spots. Regional industrial districts in the Italian textile and clothing, German metals, US electronics industries, Japanese Keiretsu and Korean Chaebols represent examples of long-standing patterns of co-operative inter-organizational relations (Ebers, 1997). Others include joint ventures, strategic alliances, joint programming, collaborations, business groups, consortia, relational contracts, and some forms of franchising and outsourcing (Podolny and Page, 1998). Despite the many concepts linked to agglomeration, clusters and industrial districts (McCann and Folta, 2008; Martinez-Fernandez et al., 2012) this research will focus on some of them, specifically on country-of-origin clusters of subsidiary firms.

The development of clusters in manufacturing sectors reveals the importance of strategic inter-organizational linkages in the business market (Yue-Ming, 2005). Inter-firm networks concern the interactions, relationships and ties existing between firms, and may arise through the need to access new assets and skills, and keep pace with competitors (Ahuja, 2000). The role of inter-firms networks (seen as “hybrid” organizational forms lying between market and hierarchal modes of governance) beyond contractual arrangements remains still less recognized (Huggins, 2010).

Inkpen and Tsang (2005) show in Figure 9 a typology of some common network types along two dimensions. The vertical-horizontal dimension represents the extent to which network members occupy different positions along the network’s value chain. The structured-unstructured dimension represents the extent to which network governance is structured. In a structured network, members’ roles and relationships are clearly defined, and members are well organized to achieve certain goals.



Source: Inkpen and Tsang, 2005: 148

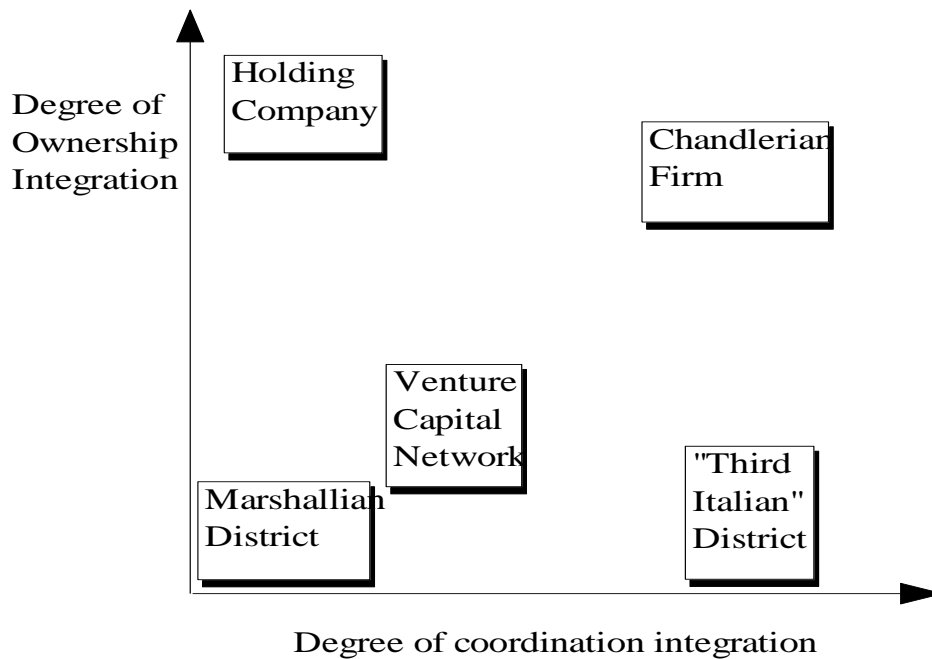
Intracorporate network for instance, is a group of organizations operating under a unified corporate identity, with the headquarters of the network having controlling ownership interest in its subsidiaries. Industrial district on the other side is a network comprising independent firms operating in the same or related market segment that share a geographic locality and benefit from external economies of scale and scope from agglomeration (Inkpen and Tsang, 2005).

According to Vazquez (1999), the social approach identifies several types of networks:

- (1) With respect to the formal and informal relationships established between firms;
- (2) According to the nature of transactions, whether of information (technical relationships) or goods and services (commercial transactions);
- (3) According to the actors involved, whether they be (a) personal networks, which provide personal information and resources, or (b) firms' networks, which provide business information, technical assistance, financial resources and strategic alliance.

Langlois and Robertson (1995) classified networks based on the degrees of both coordination integration and ownership integration.

Figure 10. Networks: ownership and coordination



Source: Langlois and Robertson (1995: 173)

Although Inkpen and Tsang (2005) and Langlois and Robertson (1995) have classified networks by looking at different dimensions (such as the position of the members in the value chain, their structure, or the degree of coordination and ownership integration of the members), none of them have defined the inter-organizational networks that are characterized by the ethnicity or country-of-origin of their members.

As Puig and Marques (2010) point out, the common characteristic of both types of territorial networks named Marshallian networks (clusters) and Becattinian networks (industrial districts) is the low ownership integration (high interdependency) of its firms, while they differ in the level of coordination (intensity, scope, or commitment) between the participants. Although industrial districts are a particular type of cluster (Porter and Ketels, 2009), researchers have often used both terms interchangeably regardless of the differences between them.

According to World Bank (2009:8) special economic zones (SEZs) are “*geographic concentrations of firms created to provide better infrastructure and R&D, and they offer government incentives not found outside the zones*”. According to Zeng (2010), they have a single administration or management and separate customs area (duty-free benefits) and streamlined procedures. This type of agglomeration then is usually policy driven and offer preferential policies for those firms investing there.

As compared to previous definition on SEZs, clusters are much less top down than SEZs, and there is less emphasis on concentration of physical infrastructure. Government’s role is more that of a catalyst, providing a productive business environment, and is not restricted to a particular sector. Another point of difference is that, while an industrial zone is usually nested in a city or lies nearby, it is usually smaller in span than a cluster, which can spread over the entire city, province, or region. The concept of cluster, however, is chaotic (Martin and Sunley, 2002) and many terms are sometimes used interchangeably (Enright, 1996).

Porter's clusters embrace the existence of clusters in small and large economies, rural and urban areas, in traditional and high-technology industries, with or without university connections, nascent, new, established or declining or with different level of geographical concentration (Martin and Sunley, 2002). It is accepted that there are formations that can contain varying elements of different types of clusters and that clusters can change over the time from one type to another (Gordon and McCann, 2000, Markusen, 1996). As compared to networks, clusters consist of a type of network where the nodes are geographically concentrated (Enright, 1996; Maguire and Davie, 2007). For Rosenfeld (1997), networks, as compared with clusters and as used in developed countries, have more restricted membership, are not that based on social values and trust but on contractual agreements, are based on cooperation rather than competition, and more than attracting specialized services, they allow firm to access those at a lower cost.

Clusters then consider not only the concentration of interconnected and interdependent firms but also other institutions such as educational, financial or government institutions located nearby. Various authors recognize clusters as a type of network (Van den Berg *et al.*, 2001). The geographic proximity is a key characteristic but the members do not necessarily need to have an ideological or cognitive proximity. They could be based not only cooperation among members but competition between them.

Some of the main authors within the literature agree that industrial districts (IDs) and clusters have common elements (Parrilli, 2009; Enright, 1996; Malmberg *et al.*, 1996). Although those terms are often used interchangeably, ID is always a cluster but no reverse (Schmitz, 1995), which shows the word "cluster" is a more general phenomenon. ID has traditionally been defined as "*a socioeconomic entity which is characterized by the active presence of both a community of people and a population of firms in one naturally and historically bounded area*" (Becattini, 1990: 39). Parra-Requena *et al.* (2010) refer to the term, as a *physical and relational space* where externalities are generated for firms. For industrial districts the face-to-face contact and physical proximity is important and they have a strong social and relational

element (both organizational and personal). Not only tangible externalities matter but intangible externalities too. As in clusters, the players of IDs are not just firms but also other institutions such as universities, trade associations, industrial policy agents, and other local or regional institutions.

Business parks, are defined as “*multi-building development planned to accommodate a range of uses (from industrial to office space) in an integrated-park-like setting with supporting uses for the people who work there*” (Frej *et al.*, 2001: 4). Business parks in their different forms (industrial, distribution, logistic, research, technology, incubator, corporate, others) put the emphasis on the business rational of the developers (they build business parks as an investment that will generate profits) and their supporting services.

Especially under situations of uncertainty, such as entering foreign markets, actors tend to prefer relationships with homogenous others (Kim, 2014) and often imitate compatriot firms when selecting foreign market locations (Henisz and Delios, 2001), particularly in their first foreign entry (Guillén, 2002). Country-of-origin agglomeration is taken as a strategy-seeking choice where firms are attracted to locate nearby compatriot firms (Mucchielli, 1998; Mucchielli and Yu, 2011), and when they seek market expansion (Shen and Puig, 2015). Companies cannot only access local market knowledge through acquisitions or Joint Venture, but also by the interaction and creation of networks (Majocchi and Presutti, 2009; Brouthers, 2013) so COO clusters provide the space to share this knowledge. Due to a lack of local knowledge, foreign firms are expected to encounter so-called “disadvantage of alien status” in host economies (He, 2003) so they find higher benefits from locating in existing clusters of foreign enterprises (Dunning, 1998).

Existing studies on country-of-origin FDI agglomerations predominantly focus on the examination of location choice (Mataloni 2011; McCann and Folta 2008; Dunning 2009), drivers and motives of agglomeration (Chang and Park 2005; Shaver and Flyer 2000; Tan and Meyer 2011), and performance differentials within agglomeration (McCann and Folta, 2011).

There are different factors influencing the decision to go into COO clusters. Factors such as oligopolistic market structure's in the home country (Gimeno *et al.*, 2005), presence of immigrants (Chung and Tung, 2013), experience (Henisz and Delios, 2001) time of entry (Knickerbocke, 1973) or previous market knowledge on similar markets (Carlsson *et al.*, 2005) seem to determine the COO co-location entry mode. According to Johanson and Vahlne (2009), liability of outsidership is likely to be higher for new comers and co-location with other foreign entrants provides knowledge that can enable a foreign entrant to overcome the liability. It is important to understand the temporal dynamics underlying agglomeration externalities (Wang *et al.*, 2014; Marco-Lajara *et al.*, 2016).

Compared to industry agglomeration, COO clusters enable MNCs to have easier and more frequent access to a variety of knowledge and typically exhibit cooperative inter-firm relations and a high level of trust among the firms due to shared ethnic and cultural backgrounds and languages (Chang and Park 2005; Tan and Meyer 2011; Liao and Yu, 2012). As López Duarte and Vidal- Suarez (2010) found, language diversity between the home and host countries can condition the influence of this interaction effect on the entry mode choice. Compatriot firms benefit from the access and sharing of tacit or sensitive knowledge. This and the acquisition of local market knowledge and resources help these firms act in an isomorphic manner, gain legitimacy in the local environment, overcome the liability of outsidership, and reduce knowledge-expropriation hazards (Guillen, 2002; Johanson and Vahlne, 2009; Tan and Meyer, 2011; Liao and Yu, 2012; Mariotti *et al.*, 2010). However, as Kim (2015) found out, agglomeration by nationality paradoxically, both enables and constraints the innovation activities of firms in foreign markets (facilitates exploitative innovation but hinders explorative innovation).

When analysing the country-of-origin agglomeration object of our research we think that social ethnic ties are very much influential on the performance of the clustering (as it happen on industrial districts or social networks). So some of the main characteristics of the country-of-origin agglomeration are that firms select that form of location choice both due to strategy and market reasons,

they normally show cooperative inter-firm relationships and higher levels of trust. Among the benefits they can share local market knowledge and resources, gain legitimacy, overcome LOO and reduce expropriation hazards. Despite these benefits, the separation between natives and immigrants in the development of local networks of people and firms also create *local liabilities*, that limits the cultural integration and adaptation (Guercini *et al.*, 2017).

2.3 Clustering effect

As mentioned in previous sections in this chapter business to business collaboration can be driven by the need that firms have to access resources, information, knowledge, etc. and the geographical proximity can help firms creating inter-organizational networks of different types. This last section of chapter 2 will focus on the impact that those inter-organizational networks have on the member firms. Although we will present a number of different effects (such as industry-specific knowledge or networking) that can be applied to several inter-organizational networks, our research will focus on analysing and understanding to what extent and how country-of-origin clusters provide the specific space for members to benefit from these externalities and clustering effect factors.

2.3.1 Geographical dimensions of clustering

During the last decades, researchers have shown an increase interest for the localization of firms in limited geographic areas. These researchers have come from different disciplines: geography (Krugman, 1991; Lundvall, 1992), economics (Piore and Sabel, 1984; Best, 1990; Diugiovanna, 1996; Becattini, 1990), sociology (Saxenian, 1994; Lazerson, 1995) or strategy (Porter, 1990; Enright, 1995). The literature stresses different elements such as the link between competitiveness and location (Porter, 1990, 2000a), the support of local institutions for a geographical technological development (Cooke, 2007; Maskell and Malmberg, 1999) and the cooperative and coordinated productive relations between the firms (Pyke and Sengenberger, 1992; Piore, 1990).

The literature on industrial agglomeration has concentrated upon vertical relationships but it has given little attention to the role of complementary relationships. Location theorists, however, recognize that complementary relationships arising from those economies of scale external to the firm but internal to the industry can be important sources of agglomeration (Hoover, 1948).

Gimeno *et al.* (2005) argue that clustering patterns can be explained in three ways: (1) as random confluences of independent decisions; (2) as a common cause of similar but independent firm-level reactions to a common environment; (3) as a result of interdependent or mutually referential decision making in which actions by some firms increase the likelihood of other firms to take the same action. They call this last actor-level behaviour *inter-organizational mimicry*.

The spatial configuration of economic activities is the outcome of a process involving two opposing types of forces, *agglomeration* (or centripetal) and *dispersion* (or centrifugal) forces. According to Krugman (1998), the centripetal forces are those that strengthen the agglomeration of economic activity in a single or few regions (market-size, labour markets, or pure external economies) and centrifugal forces are those that tend to disperse economic activity (immobile factors, land rents, or pure external diseconomies). Similarly, Chung and Kalmins (2001) point out that gains from clustering sometimes outweigh the costs. The benefits can be related to information externalities, reduced consumer search costs, reputation, knowledge and information spillovers or specialized labour and infrastructure. Costs on the other side could be derived from congestion and competition in input and output markets within the cluster. There are several types of agglomeration economies and the net effect each one of them has on innovation for instance, is different (Claver *et al.*, 2016). The observed spatial configuration of economic activities is the result of a complicated balance of forces that push and pull consumers and firms.

Many authors have made contributions to theories on industrial agglomeration and location choices and most of the scholars put emphasis on the advantages and disadvantages of clustering and the plethora of reasons such as the externalities or non-traded interdependencies (Storper, 1992). The widespread idea behind clustering theories is that the common localization and proximity of companies create positive externalities and fosters their competitiveness. It is often considered that the co-location generates substantial employment and achieve benefits through economies of scale. The clustering effect can be direct (e.g. managers learn about market or technical developments from neighbouring firms, close firms are one another's customer or suppliers) or indirect (there are abundant inputs, technology activity is high, etc.).

Since Marshall first analysed industrial districts in Britain, he referred to the gains as "external economies" that are dependent on the general development of the industry (as opposed to "internal economies" that are dependent of the resources of the individual businesses, their organization and efficiency) (Schmitz, 1995). Externalities are defined as the ability of firms to profit from improvements generated outside the firm itself and without its own investment (Maguire et al., 2007; Perez-Aleman, 2005). They are beyond the control of the individual firm and typically result from the presence and/or collective action of other firms (Parr, 2002). Gimeno *et al.* (2007) describe how positive externalities or spillovers could be complementary or independent in terms of how prior actions directly increase performance for later actors or not. It is important to note that agglomerations are usually configured by two types of linkages (or interdependencies) between firms: traded (formal trading links such as contractual agreements) and untraded (less tangible and link to the place, social and cultural bases rather than economic ones) interdependencies (Storper and Salais, 1997).

As Glasmeier (2000) argues, many benefits from geographical clustering are far from being general as it depends on the case-by-case analysis. Several researchers have found that clusters have a positive impact on firm performance (e.g., Du *et al.*, 2008; Li, 2004), although others have reached quite different conclusions (Appold, 1995; Shaver *et al.*, 1997). The reason for

this disparity may be that the variations in ownership structures within a cluster, associated with the formation of different identities, norms, and beliefs (Porac and Rosa, 1996) would likely influence whether clusters afford foreign firms greater legitimacy, serving to enhance their performance (Liao, 2015). Shaver and Flyer (2000) argue that there are asymmetric contributions and benefits from the agglomeration externality and that firms do not just agglomerate to benefit from clustering, as some firms still cluster despite the survival disadvantage (as it may be for efficient firms that gain little from clustering. Mariotti *et al.* (2010) claim that (i) geographical proximity is necessary to promote social learning processes but is not sufficient to generate interaction between agents, and (ii) interaction does not necessarily lead to positive spillovers. So proximity does not necessarily mean that co-located firms cooperate and interact, thus, benefit from externalities.

As Breschi and Malerba (2005) distinguish, agglomeration drivers for any given sector are location specific and drivers that are sector specific promote concentration across all geographical locations. Marshallian externalities are often identified as economic effects such as knowledge spillovers, input sharing or labour pooling that make the firms locate nearby other firms of the same industry (intra-industry externalities). In contrast to these externalities we find Jacobs (1969) proposal about externalities that could arise among different industries (inter-industry externalities). Claver *et al.* (2016) on the other hand, classified the agglomeration economies that are beneficial for innovation as urbanization economies, localization economies, and knowledge-intensive economies.

There are various classification of externalities. He (2003), who analysed agglomeration economies in FDI location in China, suggests, that besides these two agglomeration economies (Marshallian and Jacob's) there are country-of-origin effects that also influence the location of FDI. Parr (2002) for instance, distinguishes 3 types of external economies, adding a third type to intra and inter-industry externalities (they are economies of scale, of scope and of complexity).

External economies of scale refer to cost saving that depend on the scale of the industry to which the firm belongs (“localization externalities” when they are spatially constrained), while external economies of scope are dependent on the existence of firms in other industries (“urbanization externalities” when they are spatially constrained). External economies of complexity result from links in input-output terms to firms in other industries to form a production entity (“activity-complex economies” when they are spatially constrained).

Besides, authors like Chang and Park (2005) distinguish three types of network externalities: among firms in the same boundaries or associated to the same business groups (firm- specific), among firms from the same country-of-origin (nation-specific) and among firms in the same industry (industry-specific).

Taking the traditional notions of comparative advantage, the work of Ellison and Glaeser (1999) or Dumais *et al.* (2002) suggests another view of agglomeration that is linked to location advantages such as the availability of natural resources (which they call the “natural advantage” of a location). Examples of geographic concentrations driven by this “natural advantage” could be found in the wine industry (climate advantage), shipbuilding (aluminium advantage) or rubber and plastic footwear industry (labour market advantage) (Ellison and Glaeser, 1999). These authors distinguish between natural advantages and spillovers, where the latter refers to technology and knowledge externalities, as well as inter-firm trade.

Thus, we can distinguish the different dimensions of the clustering effect: (1) localization externalities, (2) urbanization externalities and (3) location and nation specific externalities, (4) firm-specific externalities, and (5) country-of origin externalities.

(a) Localization (intra-industry) externalities

Localization economies are spatially constrained external economies of scale that are external to the firm but internal to the industry (Parr, 2002). They are created when a high level of local factor employment helps developing external

economies within a group of local firms in the sector. They are economies generated between specialised suppliers, collaborators, sub-contractors or competitors within a single industry located together in a particular place. This localization permits the emergence of pools of skilled labour, lower freight rates on inputs as well as outputs, access to specialist services, and the possibility of information spillovers (Parr, 2002). They are associated with clustering of particular industry and considered that the firms engaged in similar or inter-linked activities create spatial clusters of related firms (“industrial Hollywoods”, “new industrial districts”, “innovative milieux”, “quasi islands of industry concentration as the garment districts in New York”, etc.) (Malmberg *et al.*, 1996). They are likely to enable host locations to increase their production, technological and organisational competence over time (Cantwell, 2004). The reduction of unit costs result from a facility’s proximity to facilities from which it obtains inputs or services, or to which it sells products or services (Harrington and Warf, 1995, p33). The spillovers of this intra-industry clustering are associated to the accumulation of relevant knowledge and specialization externalities or asset sharing.

According to Barkley and Henry (2001) sources of potential savings in localization economies include a greater availability of specialized input suppliers and business services; a larger pool of trained, specialized workers; public infrastructure investments geared to the needs of a particular industry; financial markets familiar with the industry; and an enhanced likelihood of inter-firm technology and information transfers.

(b) Urbanization (inter-industry) externalities

Urbanisation economies are spatially constrained external economies of scope of unrelated firms (Parr, 2002). They attract all kinds of economic activities into certain areas and the development of external economies is available to all local firms irrespective of sector. They are economies shared by all firms in all industry is in one location. These economies refer to the concentration of economic activity that creates an enviroened to facilitate the sharing of inputs, public utilities, transportation, infrastructure, or specialized business services

(Parr, 2002). They are associated with city size or diversity and it is often assumed that the concentration of firms in a location and emergence of industrial core regions with broad sectoral specialisations varying across different locations. The reductions in unit costs result from a facility's location in an urban area with 1) general transportation, communication, and commercial facilities or infrastructure, 2) wide range of potential employees, and 3) wide range of educational, cultural and residential choices for employees (Harrington and Warf, 1995).

Urbanization economies could be linked to Jacobs' theory of dynamic externalities (Glaeser *et al.*, 1992). They can be related to general purpose technologies (GPTs), entailing inter-industry spillovers (Lipsey *et al.*, 1998), and firms working in several different fields of productive and technological endeavour (Cantwell, 2004). Those spillovers are related to the dynamic externalities that favour the creation of new ideas across sectors (Jacobs, 1961).

The idea is that diversity may promote innovation and knowledge spillovers to a greater extent. This clustering is in response to the large local market possibilities that make different firms (marketing, catering, packaging, education, health care, transportation, etc.) find economies of scale where sectors achieving localization economies are. They are more likely to occur in an all-round "higher-order" of excellence, which attracts the research-based investments of a wide variety of foreign-owned MNCs and facilitates a more favourable interaction with indigenous firms (Cantwell and Iammarino, 2001). Van Soest *et al.* (2006) analysed the extent to which agglomeration economies in one location contributed to growth at other location. They found that with the exception of manufacturing, the spatial effects of agglomeration economies decline quickly with distance and that the geographic scale of these externalities is much smaller than a city.

FDI has become a driver for clustering phenomena and has provided the basis for the formation of global city-regions. As Scott (2002) argues, many peri-urban areas are becoming an industrial landscape, with the transformation of farmland into industrial parks or export processing zones. Political plans or

regional alliances¹ have reinforced city-led economic integration (Zhao and Zhang, 2007). According to Porter (1998b) in developing economies, economic activity tends to concentrate around capital cities (such as Bangkok or Bogota) due to infrastructure, institutions and suppliers. One of the reasons for urban concentration in developing countries could be the low levels of urbanization and infrastructure and the willingness to develop the industry fast.

In this sense, Shanghai is considered a global city-region (Scott *et al.*, 1999), which in spite of being in a developing country, provides suppliers and services available for modern productive sectors. However, the effect of this phenomenon can cause congestion and bottlenecks that can lead to high administrative costs, less quality of life and inefficiencies. As Chang and Park (2005) acknowledge, in Shanghai, foreign firms now have to pay top salaries to attract local managers, and housing for expatriates is extremely expensive.

(c) External economies of complexity

Parr (2002) defined these economies as those based on the concentration of unlike firms that are related to each other in terms of backward and/or forward linkages. They are external to the firm but internal to the complex (interrelatedness of production among firms in a given location). Examples of this kind of phenomenon are the shipbuilding or aerospace complex. The proximity of the firms within the complex provides the advantages of transportation-cost savings, efficient flows of materials among stages, and lower inventory costs.

(d) Location- specific externalities

Dunning's (1988) eclectic paradigm has been previously mentioned in chapter one. Location choice can be determined by the advantages of the country and the host location (Cantwell and Mudambi, 2005). According to this framework

¹ "Pearl River Delta Urban Cluster Cooperative Development Plan 2004-2020", "Association for the Coordination of Urban Economy of the YRD Region", "Elite Forum of Two Provinces", "One Municipality in YRD" or the "Pan-Pearl River Delta Regional Cooperation Framework Agreement" (Zhao and Zhang, 2007).

Location advantages could be of different types, markets (size and growth of demand, etc.), location-bound resources (human capital, etc.), agglomeration (clusters, etc.) and institutions (incentive schemes to attract FDI, etc. Dunning (1998) concluded that the role of location-bound assets changes and argued that the importance of created assets (and particularly those which governments, in their macro-organizational policies, can and do influence) is increasing and that spatial clusters offer benefits whenever distance-related transactions and coordination costs are high.

Numerous theories around multinational enterprises suggest that FDI depends on location advantages such as demand, infrastructure, education, low wages and taxes, access to new technologies, business services, proximity to institutions and social amenities (Buckley and Casson, 1976, Zhao and Zhang, 2007). Some regions that have relied on FDI for economic growth have apparently been able to develop clusters with the aid of such investment (Enright, 1996). Regional development ensues as competitiveness occurs in places where those *localized capabilities* (infrastructure, specialized resource, available knowledge and skills, institutions and sharing of common social and cultural values) exist; and firms locate and build their competitiveness in contact with those factors (Maskell and Malmberg, 1999).

Within research work that has emphasized the host locational advantages, Jensen and Pedersen (2011) found that Asia attracts as many advanced activities as Western Europe while North America attracts more advanced activities even in manufacturing. Central and Eastern Europe attract offshoring in manufacturing and IT, but the activities that are offshored to these regions are typically not advanced. Research work on agglomeration studies that treated externalities as location specific include Head *et al.*, 1995; Shaver and Flyer, 2000; or Chung and Song, 2004.

(e) Firm-specific externalities

Guillén (2002) studied South Korean firms moving into China and found that business group experience and imitation among firms from the same home-

country industry increase the rate of foreign expansion but imitation effects tend to decrease after a firm makes its first foreign entry. Since many firms are diversified and are organized into product divisions, co-locating investments for multiple divisions helps firms share plants, equipment, and workers and expatriates can add more businesses to the same location without hiring more managers (Chang and Park, 2005). As these authors explain, when Samsung Electronics is located in Tianjin, other affiliates of the Samsung Group such as Samsung Corporation and Samsung SDI are more likely to locate in Tianjin than they are in other regions since they can learn from Samsung Electronics' experience in the same location and since Samsung Electronics' presence legitimizes their own location choices. By analysing Korean firms investing in China they found that network externalities were stronger among firms in the same business group.

(f) Country- of-origin externalities

Firms also pay more attention to the decisions taken by other firms from the same country-of-origin. Chang and Park (2005) found that network externalities are stronger among firms of the same nationality. As they describe, network externalities might explain patterns of agglomeration. These externalities give rise to the previously described, and object of this research, country-of-origin agglomeration.

As argued previously throughout this research, there are advantages and disadvantages that firms have from being part of geographical networks. While a vast literature exists on geographical networks (clusters, industrial districts, etc.) (Becattini, 1979; Porter, 1990; Piore and Sabel, 1984) there is a lack of research on the international dimension of these clusters in the context of multinational firms. Previous research suggests that localization in clusters and internationalization strategies are positively related to a better performance (Olmos and Alesón, 2015) but not much research has focused on analysing the role that clustering has on firms internationalization abroad.

Regarding our research objectives, our analysis could be linked to location externalities in the sense that the spatial concentration takes place in a particular place, and linked to urbanization externalities due to the effect of Shanghai and that the commonality is not necessarily the sector or industry. Besides, as explained in chapter one, location and nation specific externalities could influence the location of FDI. If we take the specific case study of MKIP, firm-specific externalities are also relevant (as the park was initiated by the president of a industrial equipment division of Mondragon that wanted to co-locate firms from that division). Country-of-origin effects are with no doubt the most determinant factor influencing the externalities on our research.

2.3.2 The country-of-origin clustering effect

In line with the literature on business relationships and networks, cooperation and collaboration, we can summarize those externalities in six groups: local market knowledge and resources, industry specific knowledge and resources, legitimacy and reputation, networking and social interaction, market conditions, cost advantages and savings. We will focus on studying these elements in this following section. Our research will try to analyze how these externalities apply in the context of country-of-origin clusters.

- **Local market knowledge and resources**

Country-of-origin agglomeration can provide the members benefits related to the access to local market knowledge (Tan and Meyer, 2011) which involves the understanding of market characteristics such as culture, business environment, and structure of the market system or customers (Carlsson *et al.* 2005) and is considered crucial to succeed in China (Jiang *et al.*, 2007).

Foreign investors from the same socio-cultural backgrounds often have similar home business practices and adaptation processes (Liker *et al.* 1999). Local market knowledge is knowledge that is specific to a host country regarding its language, culture, politics, society, and economy (Inkpen and Beamish, 1997; Makino and Delios, 1996). Having knowledge about the local market is a key

successful element when planning and implementing all aspects of foreign market entry (Lord and Ranft, 2000). Dikova (2009) found that market specific knowledge negates the effect of psychic distance, i.e. psychic distance has no effect on subsidiary performance when firms have market-specific knowledge. As Makino and Delios suggest, some local knowledge must be obtained through a division's direct experience or through partnering with another firm.

The interaction among compatriot investors and the local community helps investors learn how to adapt to the local setting, for example by learning foreign languages (Chang and Park, 2005). As a result of that, investors may find local managers familiar with their home language and culture, as well as country-specific infrastructure such as schools, entertainment venues and food markets (Tan and Meyer, 2011).

- **Industry specific knowledge and resources**

For firms, especially in industry clusters, the reason to co-locate along with other firms belonging to the same or related industry is the access to both local industry-specific knowledge and specialized industry related resources, a requirement for success when entering a foreign market (Meyer *et al.* 2011; Wang *et al.* 2014).

As Mariotti and Piscitello (1995) argue, by co-locating with other foreign firms in the same industry, foreign entrants can gain access to local, industry-specific knowledge such as industrial forecasts or supplier behaviours. Through co-location firms can improve access to specialized labor and suppliers, qualified workers (Marshall, 1920; Makino *et al.*, 2002) and knowledge spillovers (Krugman, 1991; Marshall, 1920). Economists and geographers have shown how local-firms' agglomerations generate external economic efficiencies by supporting both large and stable markets in labor skills and equipment and cheaper subsidiary trades and related services, and promote greater use and development of specialized machinery and organizational methods (Romer 1987, Storper and Scott 1989, Krugman 1991). Labour market pooling (Marshall, 1920) that allow firms match their job offer and demand (Swann

and Prevezer, 1996), the workforce mobility that acts as a knowledge driver in the cluster (Mitchel *et al.*, 2014), or the capacity to find knowledge business partners (Arikan, 2009) or facilitate innovative activities and the creation of new ideas (Chung and Alcacer, 2002) are also advantages of industry clusters.

A reason for firms to collocate in cluster is the productivity gains from other firms in a cluster as a result of externalities (Shaver and Flyer, 2000) and the high efficiency obtained from specialized suppliers, concentrated customers, and complementary product providers (Porter, 1998, 2000).

- **Legitimacy and reputation**

Legitimacy is one of the main reasons why firms cooperate in inter-organizational networks (Meyer and Rowan, 1977; Scott and Meyer, 1983). Firms respond to environmental constraints by seeking recognition and legitimacy (Lin *et al.*, 2009) and in clusters, firms gain competitive advantages by being different whereas they obtain legitimacy by being similar (Tan *et al.*, 2013). This goes in line with the assumption that imitative behavior serves as a strategy to address uncertainty. As Tan *et al.* (2013) argue when embedded within a cluster of foreign firms from the same home country, foreign firms are more easily able to engage in collective sense-making, achieve legitimacy.

Organisational legitimacy refers to “*the degree of cultural support for an organisation - the extent to which the array of established cultural accounts provide explanations for its existence, functioning, and jurisdiction*” (Meyer and Scott, 1983: 201). Legitimacy, or being recognized as operating properly and appropriately within local institutional frameworks of social values, norms, and regulations (Suchman, 1995) can help foreign firms gain local support and cooperation, as well as improve their performance (Liao, 2015). Besides, legitimacy can provide critical social resources that facilitate and complement financial and physical resources (Lin *et al.*, 2009). As Li *et al.* (2009) argue, close ties with partners and the referral trust gained from its business ties offers a foreign firm legitimacy in doing business in the local market and reassurance in transactions with external parties.

Firm reputation is commonly conceived as the overall evaluation of the main stakeholders (e.g. shareholders, financial community, suppliers, etc.) as a result of the direct or indirect experiences that they have of the company and any other form of communication and symbolism that provides information about the company's actions in comparison to rival companies (Gotsi and Wilson, 2001; Chun, 2005). According to Larson (1992) the knowledge about the reputation of a potential partner combined with a history of personal relationships facilitate mutual trust and thus reduces the risk.

- **Market conditions**

The theory of the competitive advantages of nations (Porter, 1990) takes into account that the demands of the local clients or the rivalry that acts as a source of creative development in the host markets could be determinant on the internationalization of the firms. According to Tan and Meyer (2011) employee participation in local networks enables firms to follow trends in markets and technologies (Porter, 1998), to reduce the time that managers spend searching for information (Almeida and Kogut, 1997; Mariotti and Piscitello, 1995), and to react quickly to customers' and competitors' moves.

- **Cost advantages and savings**

Sharing transport infrastructure, climate, mineral resources and markets, matching producers with users and learning are also considered driving factors of agglomeration economies (He *et al.*, 2007). In the context of an agglomeration, Hansen and Løvås (2004) argue that, as geographical distance increases, search and transfer costs are likely to increase (because of the higher probability of longer travel distances and interactions taking place across different time zones, national borders, and national cultures). To this respect, Tan and Meyer (2011) mention that a high level of trust facilitates knowledge transfer by reducing the costs associated with searching for information. This may encourage the members of the network to take collective actions that help them fulfil their common interests.

According to transaction cost analysis (i.e. Williamson, 1991), inter-organizational forms are ways to reduce opportunistic behaviour on the part of suppliers and distributors (Brass *et al.*, 2004). What Harrington and Warf (1995: 33) call “*external diseconomies of urbanization*” refer to the increases in unit costs resulting from a facility’s location in an urban area with potential for congestion, high wages and high employee turnover. When asking whether industrial firms are better off located in major cities (especially in the capital), Thünen (1826, 1966 mentioned by Fujita and Thisse, 2002) links the main centrifugal forces with higher transport cost and thus more expensive raw materials as well as more expensive necessities, rents, food, housing or production costs.

- **Networking and social interaction**

According to several authors (Crewe, 1996; Paniccia, 1998; Harrison, 1991), the most important advantage of industrial districts (a specific type of cluster) is not the agglomeration economies but the existence of a community of people (Molina- Morales, 2005). As Lazerson and Lorenzoni (1999) argued, proximity produces social and professional interaction that facilitates the diffusion of information and knowledge dissemination. Molina-Morales (2005) argues that these firms can challenge the superiority of big organizations due to their mutual trust and collaboration, the tacit and codified knowledge and the help of the local institutions.

Locational proximity reduces the cost, increases the frequency of personal contacts, and serves to build social relations and professional relationships are often embedded in these social networks (Almeida and Kogut, 1997). As these authors mention, local social and professional networks decrease the uncertainty and costs, encourages the flow of information and set the foundations for the exploration and exploitation of new knowledge. Knowledge transfer through social interaction can happen outside the workplaces, in social or religious events, or because workers attend the same local clubs and associations (Molina- Morales *et al.*, 2002).

Saxenian (2002a, 2002b) also argued that ethnic networks could assist small firms to compete in sectors that are dominated by large multinational corporations. Immigrant managers often have strong social ties in their country of origin (Chung *et al.*, 2012) and those ties can play a bridging role between both environments in the host and come countries, especially when the institutional environment is less developed (Chen and Chen, 1998). Where competitive environment is highly different between the home and host markets, firms can rely on their immigrant social networks to assist them to manage their international business relationships (Chung and Tung, 2013).

Based on a study on foreign firms in China Li *et al.* (2009) found that the information embedded in managerial social ties can reduce the liability of foreignness and uncertainty in the host market and that foreign firms benefit from their use of business ties, but their profitability suffers when they rely increasingly on the heavy use of political ties.

2.4 Conclusions and hypothesis

As mentioned in the previous chapter, our research is framed within the network view of internationalization. In this sense, we need to understand what networks are and how they shape the performance of its partners. Understanding the dynamics and characteristics of networks constitutes a theoretical pillar to understand how they shape the performance of their members. Despite the flexibility that network theory has across disciplines, international business literature has not yet worked in a complete integration of both fields.

When considering a network we should consider elements such as trust, commitment or dependency among the members. Networks can provide access an exchange of assets, information and status and if the network coordinate actions and cooperation, the members will get synergies. There are different types of networks in terms of the members' position on the value chain, its governance, formality, levels of ownership and coordination integration, or

reciprocity. In general firms could find different reasons to be part of a network (need, efficiency, stability, legitimacy, access to resources, learning, economies of scale and scope or strategic reasons). Networks enable members to collaborate and acquire, create and share knowledge. Some literature provide arguments that support the idea that firms interact with their environment and create inter-organizational networks to get benefits and take advantage of those externalities. The configuration of the network and its collective benefits however, are not static and can evolve over time.

As we have seen throughout this chapter, inter-organizational networks can influence internationalization in term of market selection, dynamics of entry, market development, time of internationalization or the strategic choices. The efficiency of the network depends on the on the trust and cooperation among networked firms. The evolution from networking to a coordinated networking, to cooperating and then collaborating will depend on how the members escalate from exchanging information and communicating, to having complementary goals and alignment of activities, to make those goals compatible, and then creating joint goals, as well as moving from individual to joint identities and work. Highly collaborative groups could provide mutual support, psychological wellbeing and an improvement on performance.

The literature review has shown us that the concentration of economic activity generates different types of externalities or agglomeration economies that imply that the benefits that firms can obtain from co-location increase as the number of firms in that area increase. However, a location with high levels of agglomeration may fall short of production economies, if for instance, the firms there compete for the same factors (specialized workers, land, clients, etc.). Several studies have proven that multinational firms' colocation decision (in agglomerations) is influenced by the advantages that they expect to obtain from those regions or areas. To be more specific, the colocation decision will be influenced by the cluster's net effect (benefits- negative effects). In emerging markets like China, however, there is scarce evidence of whether the location offers knowledge-based advantages or a more primitive source of locational advantages such as cost-based resources and shared infrastructure

(Puig *et al.*, 2016). Henisz and Delios (2001), Guillen (2002), and Chung and Song (2004) argue that network externalities could be stronger for firms that had little or no international investment experience.

Locating in a cluster thus enhances firm innovativeness through the effect of the network. Firm performance is often used as to analyse existence of location advantages in international business research. Several authors (Krugman, 1991b; Shaver and Flyer, 2000) suggest that agglomeration economies improve firm performance but few empirical studies (Chung and Kalnins, 2001) have demonstrate it.

Firms could have different internal drivers towards collaboration. A common driver, especially for small firms, is the access to physical, human or organizational resources or competences that they lack. Networking and trust could also reduce transaction costs, increase efficiency, or improve the coordination that avoid duplicity of activities or other pitfalls. Collective learning and knowledge is also one of the main drivers. The knowledge flows will differ depending on the network structure or hierarchy, and the direction of the links or the reciprocity level. A coordinator can act as a figure of knowledge intermediary or not. The relationships built within the firms in an inter-organizational network can create opportunities for the acquisition and exploitation of knowledge.

In sum, we have seen that subsidiaries can cluster to reduce the challenges mentioned in the previous chapter and that they give a different value to externalities that they obtain from that clustering. Thus, we could expect that:

Hypothesis 2a: Country-of-origin clusters provide the necessary conditions to engage in international operations, especially for a first entry in a distant market.

Hypothesis 2b: The externalities from the country-of-origin cluster differ, being legitimacy and networking the most important externalities.

However, not all the geographical networks have the same knowledge and information flows, nor all the members make use of this knowledge in the same way. This makes us raise a concern about how this resource called social capital.

CHAPTER 3: LEARNING COMMUNITIES AND INTERNATIONAL SOCIAL CAPITAL

According to both economic geography literature as well as the IB approaches previously mentioned, knowledge spillovers impact on co-location and knowledge resources can be a source of competitive advantage. As Wenger *et al.* (2002:7) state, “*the knowledge economy presents an additional challenge as knowledge markets are globalizing rapidly*” and “*success in global markets depends on communities sharing knowledge across the globe*”. This shows the relevance that nowadays the globalizing knowledge economy has, as firms tend to compete not only for market share but also for talented people that generate innovative ideas. Knowledge management is perceived as a collaboration that requires special collaborative and networking skills, with less emphasis on individual achievement and more on teamwork (Kakabadse *et al.*, 2003).

Economic geography stresses that, in addition to formal arrangements, firms also look for external knowledge through indirect means of knowledge spillovers (Alcacer and Chung, 2007). The Marshallian concept of “industrial atmosphere” can be described as the experience-, knowledge- and information-based intangible resources that are common to all the companies in the district (Molina-Morales, 2005). Thus, clustering enables easier sharing of product and market knowledge compared to those firms that are not geographically close (Gordon and McCann, 2000). The rationale behind the concept of knowledge spillovers is that geography matters and those spillovers are only available to the actors within the cluster, giving them an advantage as compared to those outside the cluster (Audretsch and Feldman 1996), especially in terms of intangible externalities or “untraded interdependence” (Storper and Scott, 1995). As Foss and Pedersen (2002) describe, one of the important knowledge sources for firms are the network relationships, and local clusters could provide knowledge that is least transferable such as that of local skill levels, tastes, or regulatory issues.

Knowledge transfer has been an active area of research that has attracted attention over the years and contributed to the understanding of how knowledge is transferred across organizational boundaries. However, most of the papers focus on the intra-MNC knowledge transfer (Gupta and Govindarajan, 2000; Hansen, 1999; Kostova, 1999; Mudambi and Navarra, 2004; Zhao and Luo 2005, Gooderham, 2007, Gnyawali *et al.*, 2009), and others analyse how learning from local environments occurs (Mu *et al.*, 2007, Nell *et al.*, 2011), but little has been explored on the transfer within diverse co-located subsidiaries from the same country of origin in developing countries.

Social capital can facilitate that knowledge transfer through the community of people that actively interact and involve on its construction. For a model of country-of-origin cluster, we may expect that the firms may not use the international social capital generated within the cluster in the same manner. Besides, not all the companies manage social capital and knowledge in a homogeneous way, so the benefits that social capital generates could differ among members. Thus, this chapter aims to introduce the concepts of communities of practice, social capital and their dimensions, which will help framing the theoretical framework that focuses on the internal functioning of the country-of-origin subsidiary clusters.

3.1 Proximity and knowledge

The exchange of resources, and more specifically of knowledge, is associated with the interactions that the firms have with other external actors (Molina 2005a). Inter-organizational networks and relationships are widely acknowledged for their capacity to enable contacts and interactions between firms (Coleman, 1988), create opportunities for the acquisition and exploitation of external knowledge (Dyer and Singh, 1998) and contribute to business performance and competitiveness of its members (Brass *et al.*, 2004).

The network model of knowledge management implies that knowledge resides within networks of actors and the focus is on how patterns of links between

individuals and interest groups, structure cliques, coalitions, cleavages and facilitate knowledge sharing and transfer (Kakabadse *et al.*, 2003). Through the interactions with other firms and partners, firms can gain a better understanding of the competitive trends and the context where they operate. Network ties situate firms at the confluence of different social domains, create opportunities for novel ideas, encourage creativity and novel solutions to existing problems (Mu *et al.*, 2008) not just to facilitate the transmission of knowledge within its nodes, but also to put the network the centre of new knowledge creation (Podolny and Page, 1998). Therefore, relationship partners are indirectly a source of relevant business information (Johanson and Vahlne, 2009). The firms improve their knowledge acquisition skills through learning-by-doing and trial-and-error during their interaction process with the other partners in the network (Mu *et al.*, 2008). However, one of the potential downsides of inter-firm networks is that, without effective management that includes strategic and intentional investment in relationships with other firms, knowledge may flow more freely out of a firm that productively into it (Huggins, 2010).

There are two opposing views on economic geography with regard to the knowledge-based or learning economy. The first one assumes that thanks to the information and communication technology (ICT) knowledge can move freely around the world so it should be therefore possible for regions to emulate the success of leading regions such as Silicon Valley (Sokol, 2011). The second opposing view suggests that the key sources of competitiveness and economic success is non-standardised tacit knowledge, which is embedded in local /regional institutions, regional innovation cultures and clusters (place specific) so they cannot be replicated by regions elsewhere (Sokol, 2011).

According to both the regional science and the economic geography literature as well as the international business approaches, knowledge spillovers influence co-location of firms as firms locate near one another to learn and ‘to speed the flow of ideas’ (Ellison *et al.*, 2010) and to exchange valuable knowledge (Giuliani, 2013). Knowledge spillovers tend to be geographically bound (Almeida, 1996, Tallman and Chacar, 2011) and tend to resist

movement beyond local (Birkinshaw *et al.*, 1998) or home country (Martin and Salomon, 2003) and even within the social circles in which is originated. Breschi and Lissoni (2001) consider that the distinction of explicit and tacit knowledge is important to distinguish who benefits from knowledge spillovers within geographic proximity. Geographic proximity plays a critical role in tacit knowledge transfer (Huggins and Johnston, 2012; O'Hagan and Green, 2002; Maskell and Malmberg, 1999; Malmberg *et al.*, 1996) and is considered a necessary dimension for the learning process, as certain information and knowledge exchange require regular and direct face-to-face contact (Maskell and Malmberg, 1999, Malmberg *et al.*, 1996, Storper and Venables, 2004). One of the most valuable mechanisms that facilitate innovation industrial districts have is their ability to integrate external codified knowledge with internal local tacit knowledge (Becattini and Rullani, 1996).

In line with this, co-location with foreign entrants could facilitate linkages with firms that want to share local knowledge (Shaver, Mitchell and Yeung, 1997). Knowledge socialization processes require close proximity and personal relationships, and informal conversations are key mechanism for know-how transmission (Saxenian, 1994). The commonly described benefits of close spatial proximity for facilitating knowledge flows include (1) lower communication costs, (2) higher likelihood of chance meetings, and (3) higher likelihood of social relationships (Agrawal *et al.*, 2006). Agrawal *et al.* (2006) argue that spatial proximity is more important in mediating social relationships between individuals from different fields. Therefore, the sources of knowledge seem to be more important in contexts of intense relationships among different organizations.

However, as mentioned before, geographical proximity is necessary but not sufficient to promote social learning as the interaction between agents is needed. Similarly Tallman *et al.* (2004) state that even if co-location is necessary for local knowledge acquisition by MNE subsidiaries, it is by no means sufficient. Complex knowledge resists diffusion even within the social circles where it was created (Sorenson *et al.*, 2006). This connects with the idea of embeddedness. When subsidiaries are locally embedded, the local

interaction with firms can generate location-bound knowledge that benefit that subsidiary in that particular location (Rugman and Verbeke, 2001). This locally embedded knowledge is tacit and context specific so firms need to cultivate a common understanding to share and transfer it. To this respect, Tan and Meyer (2011) mention that a high level of trust facilitates knowledge transfer by reducing the costs associated with searching for information. This may encourage the members of the network to take collective actions that help them fulfil their common interests.

Besides, the concept of proximity, however, have not only a geographic dimension but also cognitive (sharing a knowledge space and unwritten codes), organizational (close organization and coordination), social (trustful, committed and socially embedded relationships) and institutional (sharing and institutional environment or rules of games) ones (Boschma, 2005). As Boschma and Frenken (2010) suggest, while a high degree of proximity might be considered a prerequisite to make agents connected, it does not necessarily increase their innovative performance (*the proximity paradox*).

As Amin and Roberts (2008) argue, the situated knowing cannot be reduced to geographical proximity as other forms of proximity (institutional, cultural, social, technological, cognitive, organizational, etc.) could also be influential. In short, proximity indicates the extent to which two organizations share the same knowledge base (cognitive proximity), are under common hierarchical control (organizational proximity), have friendly relationships (cognitive proximity) or operate under the same institutions (institutional proximity) (Boschma and Frenken, 2010). Similarly, Hansen (2013) argues that there are two mechanisms for collaboration, (1) substitution mechanism, where non-spatial forms of proximity substitute for geographical proximity, and (2) the overlap mechanism, where geographical proximity facilitates non-spatial proximity.

3.1.1 Geographical communities of practice

Learning processes are intrinsically social and collective and occur not only through the imitation but because of joint contributions to the understanding of complex problems or when people is brought together to share experiences and past histories (Teece *et al.*, 1997). Individuals learn in their daily work (Lave and Wenger, 1991). The social fabric of business extends to informal knowledge networks, business networks, economic clusters and technology networks that may be either local or global (Allee, 2000). Kogut and Zander (1993) conceptualized MNCs as ‘social communities’ and emphasize the importance of the ‘cognitive properties of individuals’, ‘shared identities’, and ‘established routines of cooperation’ within MNCs. According to Mariotti *et al.*, (2010) MNEs learn from the other MNEs’ sequence of past actions and adopt a mimetic behaviour. In essence, a social community emerges when a group of individuals have common values and beliefs that make the risk of opportunistic behaviour be low (Bresman *et al.*, 1999). In this line the idea of the firm as a community of practice (CoP) (Buckley and Carter, 2003) is especially relevant.

Nonaka and Takeuchi (1995) emphasize the importance of socialization and externalization in global knowledge creation. They argue that it takes time for people from different cultures to share tacit knowledge and it takes more time to build trust among them. In line with this, Hong *et al.* (2006) found that cultural differences were some of the main barriers for Japanese companies to learn and transfer knowledge (Gnyawali *et al.*, 2009). Research on Japanese firms establishing in the USA show that some existing buyer-supplier links are re-created in the new locations (Martin *et al.*, 1995).

Miller *et al.* (2008) argues that when the number of firms that share the same ethnic identity increases in the local environment, more knowledge transfer is likely to occur across ethnic subunits. Gupta and Govindarajan (2000: 476) mention Rogers (1995: 19) to argue that when the interacting individuals “*share common meanings, a mutual subcultural language, and are alike in personal and social characteristics, the communication of new ideas is likely to*

have greater effects in terms of knowledge gain, attitude formation, and overt behaviour change". Common language and rules of communication increase mutual understanding and cooperation, and decreases the transaction costs, which improves the efficiency and effectiveness of knowledge sharing (Mu *et al.*, 2008).

CoPs are defined as "*groups of people who share a concern, a set of problems, or a passion about a topic, and who deepen their knowledge and expertise in this area by interacting on an ongoing basis*" (Wenger *et al.*, 2002: 7). Members are held together by a common interest in a body of knowledge and are driven by a desire and need to share problems, experiences, insights, templates, tools and best practices (Hubert, 2001) but they cannot be managed like a project or team as members join voluntarily (Allee, 2000). CoP can operate through face-to-face interaction (bringing experts on specialist topics together in workshops, etc.) or virtually (sharing information on the intranet of the MNE, etc.) (Peng and Meyer, 2011).

Cummings and Van Zee (2005) reviewed two perspectives on social learning, the networks and the communities of practice. They argue that CoPs and networks are part of a continuum, ranging from informality- spontaneous groups of professionals forming a CoP- to formality, more institutionalized in the form of a network, including a "management unit" whose role it is to facilitate the networking process. Wenger *et al.* (2004) describe some of the elements of the CoP: the members do not necessarily work together every day but they meet because they find value in their interaction (instrumental for work and for personal satisfaction); they share information and help each other solve problems, they discuss situations, aspirations and needs; they may create tools, standards, manuals or other documents or they may simple develop a tacit understanding that they share; over time they develop a body of common knowledge, practices, and approaches as well as personal relationships or even a sense of identity.

One of the most important academic works done on organizational knowledge creation is that of Nonaka and Takeuchi's (1995) model of organizational

knowledge creation. Nonaka *et al.* (2000) acknowledge that the concept of *ba* has some similarities to the concept of “communities of practice” but clarify that: “while CoP is a living place where her members learn knowledge that is embedded in the community, *ba* is a living place where new knowledge is created”. While learning occurs in any community of practice, *ba* needs energy to become an active *ba* where knowledge is created. However, without intentional cultivation, the communities that do develop will depend on the spare time of members, and participation is more likely to be spotty, especially when resources are lean (Wenger *et al.*, 2002). Communities of practice then, can take many forms, which we summarized in the following table:

Table 5. Forms of communities of practice

Small Few specialist	Big Hundreds, thousand members			
Long-lived	Short-lived			
Co-located People that work at the same place or live nearby	Distributed Web-based communication and fewer face-to-face interaction			
Homogeneous People from the same discipline or function	Heterogeneous People from different functions			
Inside Within businesses	Across boundaries Across divisions or business units Across organizations			
Spontaneous Start without any intervention or development effort from the organization, but becomes members need each other as peers and learning partners	Intentional Organization create them to steward a needed capability			
Unrecognized Invisible to organization and sometimes even to members themselves Difficult to see value and be aware of imitations, may not involve everyone who should participate	Bootlegged Only visible informally to a circle of people “in the know” Challenges in getting resource, having an impact, keeping hidden, gaining legitimacy	Legitimized Officially sanctioned as a valuable entity Challenges: broader visibility, rapid growth, new demands and expectations	Supported Provided with direct resource from the organization Challenges: scrutiny, accountability for use of resources, effort, and time, short-term pressures	Institutionalized Given an official status and function in the organization Fixed definition, overmanagement, living beyond its usefulness

Source: derived from Wenger *et al.*, 2002

3.1.2. Dimensions of the communities of practice

There are three important dimensions of CoPs, the domain, the community and the practice.

People organize around domain of knowledge that give members a sense of joint enterprise and brings them together (Allee, 2000). A well-defined domain legitimized the community by affirming its purpose and value to members and other stakeholders (Wenger *et al.*, 2002). As they describe, knowing the boundaries and the leading edge of the domain enables members to decide exactly what is worth sharing, how to present their ideas, which activities to pursue, and recognize the potential in tentative or half-baked ideas. According to Allee (2000), in business networks relationships shift and change as people have need to connect, but the communities require a sense of mission, there is something the people want to accomplish or do together that arises from their shared understanding. The domain gives CoPs an identity (domain goes beyond mere interest), they have commitment with each other and a cohesion (Wenger *et al.*, 2002).

According to Allee (2000) people function as a community through relationships of mutual engagement that link members together into a social entity. The members have regular interaction and participate in joint activities that help developing their mutual relationship and trust (Allee, 2000). Wenger *et al.* (2002: 28) call it “*the social fabric of learning*” and argue that their mutual respect and trust encourages them to share ideas, ask questions or listen. According to Wenger *et al.* (2002) the practice is a mix of framework, ideas, tools, information, styles, language, etc. that community shares, the specific knowledge that the members develops, shares and maintains.

A presence in different local contexts with varying institutions and resources is an important stimulus to innovation but organizing CoP is more complex in MNEs operating across multiple locations, and where people speak different languages and originate from different cultures. The collaboration with external partners such as other firms or university research labs is an important source of innovation. However, connecting such local CoP with the MNE’s internal CoP is a challenge that few firms have accomplished (Tallman and Chacar, 2011). Firms need to manage not just their corporate networks, but also their external networks, whether these are in the form of informal and formal cooperative agreements, or their arm’s-length relationships with supplies and

customers. Thus, this multiple embeddedness creates complex managerial challenges for MNEs to convert opportunities of knowledge creation into success stories (Peng and Meyer, 2011). According to Tallman and Chacar (2011), communities of practice (CoP) form networks of practice (NoPs) where network-level architectural knowledge that eases the transmission of tacit component knowledge is developed. When the CoPs that are part of an MNE subsidiary firm are embedded in relevant local NoPs, they will share the local architectural knowledge and internalize component knowledge that is available within the cluster (Tallman and Chacar, 2011).

The most important factor in a community's success is the vitality of its leadership (Wenger *et al.*, 2002). A central element of the community is the role of the coordinator, which is part of the core group that has a high degree of participation in the community. Coordinators perform a number of key functions:

- 1) Identify important issues in their domain
- 2) Plan and facilitate community events (the most visible aspect)
- 3) Informally link community members, crossing boundaries between organizational units and brokering knowledge assets
- 4) Foster the development of community members
- 5) Manage the boundary between the community and the formal organization, such as teams and other organizational units
- 6) Help build the practice- including the knowledge base, lessons learned, best practices, tools and methods, and learning events
- 7) Assess the health of the community and evaluate its contribution to members and the organization

Effective community leaders typically are well respected, knowledgeable about the community's domain, well connected to other community members (they know who's who in the community), keen to help develop the community's practice, relatively good communicators, and personally interested in community leadership (Wenger *et al.*, 2002).

According to these authors, Community coordinators can easily fall into some common leadership traps. Some of the common reasons for coordinator failures are the following:

- 1) Time. The most common cause of failure is that the coordinator simply does not make time to perform the role, even when they have been allocated time for this purpose. They too easily let other things take priority over community work.
- 2) Public versus private space. Sometimes they focus on the public space of the community- such as community meetings and web discussions- and ignore the private space, there they should be connecting individuals or walking the halls between meetings to see what issues are current.
- 3) Networking skills. Some coordinators lack the ability to network with community members. One coordinator can complain if the community is not working because members are not calling him to ask for help or to submit information to the community's web site.
- 4) Technical knowledge. When coordinators do not have the back ground to understand the technical issues in the community, it is difficult for them to take the initiative to move the community, it is difficult for them to take the initiative to move the community forward. As one coordinator said, "I feel an outsider. How can I ask them to do things I don't have the knowledge to do?"

Even if many CoPs emerge "naturally", it is possible to create and cultivate them. Wenger *et al.* (2002) define 7 principles to cultivate CoPs that embody the understanding of how elements of design work together (see Table 7).

Table 6. Seven principles to cultivate CoPs

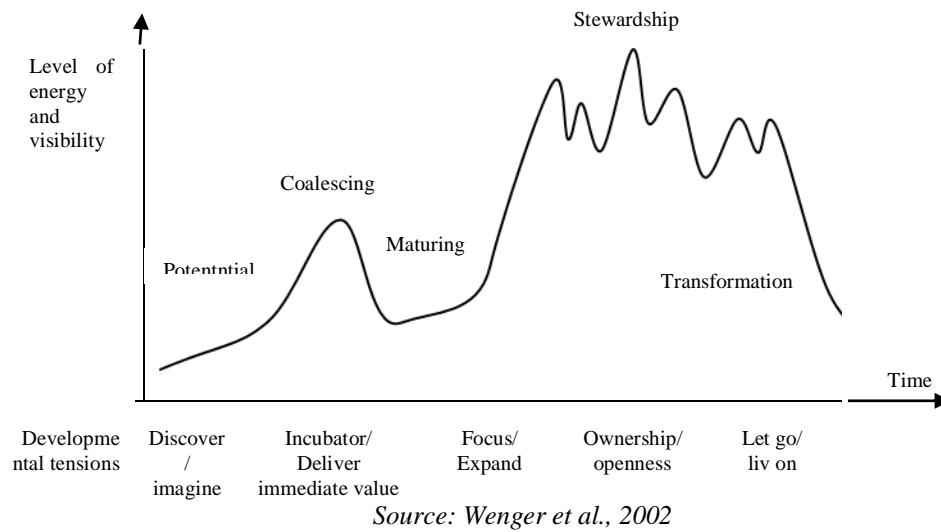
1. Design for evolution	Allow new people to become involved and new interests to be explored. Accept that there will be different activity levels and different kinds of support needed at different times.
2. Open a dialogue between inside and outside perspectives	Encourage a discussion between those within the community and those outside about what it could achieve. For example, encourage links with communities in other organizations.
3. Invite different levels of participation	Some people will be active in the community and some people will appear passive. Accept that contributions and learning take place in different ways.
4. Develop both public and private community spaces	Relationships form during informal community events and person-to-person communication is the purpose of the community. Formal organized events and discussion spaces are needed to help people feel part of a community. Both are important.
5. Focus on value	The true value of a community may emerge as it matures and develops. Community members should be encouraged to be explicit about the value being delivered. This may initially help raise awareness. Over time, value from participating should become more apparent and more concrete measures can be collected.
6. Combine familiarity and excitement	Familiar community spaces and activities help people to feel comfortable in participating. Introducing new ideas to challenge thinking also stimulates interest and keeps people engaged.
7. Create a rhythm for the community.	Regular events, paced to avoid overload, create points around which activity can converge. They encourage people to keep coming back, rather than gradually drifting away.

Source: derived from Wenger et al. (2002)

The key issue at the beginning of a community is to find enough common ground among members for them to feel connected and see the value of sharing insights, stories, and techniques. To build the community, the leaders and organizers need to discover who talks with whom about the topic, what issues they discuss, the strength of their relationships, and the obstacles that impede knowledge sharing and collaboration (Wenger *et al.*, 2002). The members need to imagine how a community can be more than just a personal network.

3.1.3. Evolution and influence of the communities of practice

There are five major stages of community development over time with different levels of energy and visibility (Wenger *et al.*, 2002). The main characteristics of each stage are:

Figure 11. Stages of community development

1) Potential: it is a loose network of people with similar issues and needs. The firms discover common ground, define the domain and prepare for a community by identifying coordinators, leaders and members. At this stage, what energizes the potential community is the discovery that other people face similar problems, share a passion for the same topics, have data, tools, and approaches they can contribute, and have valuable insights they can learn from each other.

2) Coalescing: the members come together and launch a community because they find a value in engaging in learning activities. Most of all, community members need to develop the habit of consulting each other for help. As they do this, they typically deepen their relationships and discover not only their common needs, but also their collective ways of thinking, approaching a problem, and developing a solution. For doing that they initiate community event and spaces (weekly meetings, web events, etc.), legitimate community coordinators or share ideas, insights or practices (by commissioning teams, posting material in a common space, focusing on cutting-edge topics, etc.). Community coordinators and support staff can be particularly helpful during this stage, as they need to look for opportunities to provide value, link people with similar problems, focus the meetings on relevant topics, collect information that illustrates the value of the community and engage managers.

3) **Maturing:** The community forms an identity shifts from establishing value to clarifying the focus, role and boundaries. They set standards, define a learning agenda, and deal with growth. They learn who says little but has great insight, whom to contact for what kind of help, who does meticulous analysis and who thinks in broader and more intuitive ways. It tries developing the domain, define its role and the responsibilities that it can assume, redefine its boundaries and entry requirements, measure its value, or build a knowledge repository. New members disrupt the pattern of interaction the core community has developed. They ask different questions, have different needs, and have not established the relationships and trust that the core group enjoys. Growth could threaten the intimacy and sense of identity that make the community attractive.

4) **Stewardship:** the community is established and acts as the steward of its domain. The typical activities are related to sustain energy, review the interest, educate novices, find a voice and gain influence. To maintain the relevance of their domain, communities need an influx of new ideas, approaches, and relationships. They need to shift topics along with the market, invite new members, forge new alliances, and constantly redefine their boundaries. At this stage, community leaders burn out, the community regularly rotates leadership or even hold elections to review the leadership. It is key for the community coordinator and core group members to identify opportunities to take on new challenges, expand the community's focus, and incorporate new perspectives.

5) **Transformation:** the community has outlived its usefulness and people move on. The transformation could be that the community loose members, split into distinct communities or merge with others, become institutionalized due to the need of resources, or just end.

Communities of practice play a critical role in the day-to-day activities of organizations. The role of CoPs for knowledge sharing could be described by different components of the community depending on what is shared and the result of that sharing: the information, the knowledge sharing, the social and the organizational components (Cummings and Van Zee, 2005). The benefits of the CoPs could be classified into benefits for business (drive strategy,

diffuse best practices, cross-fertilize ideas, etc.), for the community (build common language, methods and models, establish knowledge and expertise in a larger population, help knowledge retention, etc.) or for the individuals (efficiency, sense of safety, learning-focused sense of identity, offer contribution and face challenges, etc.) (Allee, 2000; Chu *et al.*, 2012). Wenger *et al.* (2002) summarize the value that the participation in communities of practice gives to the organization and the members in terms of short-term (improve business outcomes, improve experience of work) and long-term value (develop organizational capabilities, foster professional development). The value can also be perceived as tangible results (standards manual, improved skills, reduced costs, etc.) and less tangible outcomes (trust, ability to innovate, confidence and identity, etc.).

Moingeon *et al.* (2006) call for empirical studies to confirm their theoretical insights, which makes our research valuable and pertinent as it aims to look at the inter-organizational communities of practice (IOCoPs) through a case study. Pattinson and Preece (2014) found that the strength of the (bridging) social presence of a particular individual or individuals is an important ingredient in the success of such IOCoPs. Problem solving requires in-depth collaboration and when individuals from the organizations work closely together they engage in problem solving activities and generate shared repertoires necessary for IOCoPs to emerge (Pattinson and Preece, 2014). IOCoP can be promoted by SMEs by encouraging employees to mobilize their personal networks and by firms taking part in, as well as organizing, networking activities that build trust and reciprocity, leading to enhanced social capital (Pattinson and Preece, 2014).

One of their key functions of CoPs is to build social capital among organization members, which in turn enables community members to more effectively manage their organizational knowledge (Lesser and Prusak, 1999). According to Lesser and Storck (2001) CoPs create social capital (connections, relationships, common context) that improves organizational performance.

3.2 Social capital: the valuable asset of the network

The concept of social capital first appeared in sociology (Bourdieu, 1986) and then economics (Coleman, 1988) but with its transition into management, social capital studies have increasingly focused on the resources available through networks (Agndal *et al.*, 2008). In terms of space and proximity, Triglia (2001) argues that a territorial context is more or less rich on social capital depending on how the individual and collective aims are configured and linked to network ties. The use of concepts such as social capital and embeddedness has increased in the agglomeration literature and authors such as Martin (1994) consider that the idea of social capital is spatial (Molina-Morales *et al.*, 2008).

Previous research then, suggests that the long-term competitive advantage and performance of the co-located subsidiaries could be based on the information and knowledge transfer among them. As the knowledge transfer is determined by the different dimensions of the social capital in the network we will try to go deeper in the literature by analyzing the characteristics of the social capital dimensions in an specific inter-firm network, the country-of-origin cluster. This will be applied to study the case of Mondragon Kunshan Industrial park.

This section will describe the relationship between networks and social capital, describe the concept, and emphasize on the value that social capital has for member firms, especially for their internationalization process.

3.2.1 Networks and social capital

The resources available to actors in a network of relationships can be called social capital (Adler and Kwon, 2002). Networks are seen as cooperative and reciprocal, built with mutual trust and shared culture. It is from those trustful relations and networks that social capital emerges. Huggins' (2011) understanding of inter-firm networks is divided into network capital and social capital characteristics. Under the social capital perspective the investment in

networks is based on sociability, socialization, trust and obligations, but not on a logic related to economic expectations. In the network capital notion the network is seen as an investment in calculative relations through which firms gain access to knowledge to enhance expected economic returns. Huggins (2011) argues that while network capital can be strategically managed, the nature of social capital is not that manageable. The following table 8 summarizes their main characteristics.

Table 7. Network capital and social capital characteristics of inter-firm networks

Dimensions	Characteristics	Network capital	Social capital
Source	Rationality	Economic	Social/ normative
	Network	Calculative networks, although social networks emerge as a by-product	Social networks, although calculative networks may emerge as a by-product
	Investment	Relationship investments by firms	Relationship investments by individuals
Mechanisms	Interaction	Based on a logic of business and professional expectations	Based on a logic of sociability and social expectations
	Stability	Mix of dynamic and stable networks	Mainly stable networks
	Trust	Reflective	Blind
	Management	Can be strategically managed by firms	Difficult for firms to strategically manage
	Spatial proximity	Network actors not necessarily spatially proximate	Higher propensity of spatial proximity to other network actors
Object	Key object	Firms	Individuals
	Firm size	Large and growing firms	Small and new firms
Impact	Network returns	Principally economic, although social returns may emerge as a by-product	Principally social, although economic returns may emerge as a by-product

Source: Huggins, 2010: 345

It is quite accepted that social capital is created in networks though. As we can see from the following table 9.

Table 8. Network perspective of social capital

Social Capital (Nahapiet and Ghoshal 1998)	Social Capital (Network perspective)
Structural dimension, network ties, pattern of connections	Macro position
Relational dimension, trust	Trust
Relational dimension, obligation	Commitment
Cognitive dimension, shared codes and language, shared narratives representations, interpretations and system of meaning	Cognition, “network theory”
New intellectual capital created through combination and exchange	Experiential market knowledge Experiential business knowledge Experiential institutional knowledge

Source: modified from Nahapiet and Ghoshal 1998 by Rauni Seppola, in Seppola, 2004

The differentiation explains the difference between social networks (more related with the creation of trust and the friendship fulfilling emotional needs) and the business and organizational interactions (that are undertaken as part of the firm’s strategy and organizational environment). Huggings (2010) acknowledges the fact that the rationality for entering and participating in a network may be in between economic and social expectations, resulting in networks with both calculative and social elements. In these cases, the networks may possess and build both network capital and social capital. Huggins also mentions that it is an evolutionary process (not static), for example networks created with a logic of sociability, and social expectations may create network capital if the concerns of the network changes towards a logic of firm-level business and professional expectations.

Within the sociological literature, the concepts of spatial clustering have been linked to an increasing interest on the relationship between an individual’s environment and the development of ‘embedded’ social networks of communication and influence (Granovetter, 1985, 1991, 1992) which may transcend either firm or industry boundaries (Gordon and McCann, 2000). A social network is broadly known as a finite set or sets of actors that are connected by one or more specific types of relational ties (Wang and Kanungo, 2004). The actors of the social network can be individuals such as expatriates, local working partners or friends. Social network theory argues that firms can control their social capital to gain competitive advantage (e.g. Burt, 1997).

Nieves and Osorio (2013) exhaustively covered prior literature that link social networks to knowledge creation and innovation. They found that the strategies defined for knowledge searching can condition which is the most appropriate type of network and in turn, the type of network can determine the most suitable structural and relational embeddedness.

As Gulati *et al.* (2011) explain, scholars have witnessed the proliferation of duelling constructs, notably social embeddedness and social capital. The social embeddedness perspective holds that the context of social relationships in which actors are embedded influences organizational behaviour and economic outcomes (Granovetter, 1985; Granovetter, 1992; Uzzi, 1996; Uzzi, 1997). By contrast, the notion of social capital emphasizes the ability of some actors to benefit from their positions in particular social structures (Adler and Kwon, 2002; Burt, 1997; Coleman, 1988; Portes, 1998; Putnam, 1993). Despite their different origins, the social capital and embeddedness perspectives exhibit many similarities, in part because of their shared broad scope and cross-pollination.

3.2.2 The concept of social capital

Social capital differs from other types of capital such as financial, physical or human. Social capital was first described by Jacobs (1961) in studies about communities, emphasizing the importance of the strong networks of personal and long-term relationships to supply the foundations of trust, cooperation and collective actions. Popularized by Coleman (1988) and Putman (1995, 2000) social capital broadly consists of “*the value derived from networks based on socialization and sociability, and the social obligations and trust upon which these networks are built*” (Huggins, 2010: 336). For Portes (1998) social capital comes from the ability of actors to secure benefits by virtue of membership in social networks and other social structures, it is made up of the social relationship itself (which allows individuals to claim access to resources possessed by their associates) and the amount and quality of these resources.

It is evident that social capital can be seen as a critical capacity of social networking but social capital literature is interdisciplinary and multidimensional. Since Jacobs's work in 1961 many studies and diverse disciplines have analysed social capital (Coleman, 1988; Putnam, 1995; Burt 1992). Social capital has been analysed at different levels, macro (community, countries, regions), in organizations, in groups and teams, and in individuals.

On one hand, for Putnam and Coleman (structural approach) social capital is a collective good embedded in firms' environment, community participation and social networks. For Coleman (1988) social capital refers to a variety of entities with a social structure that facilitate certain actions for the actors. It includes three forms, obligations and expectations (that depend on trustworthiness of the social environment), the information-flow capability of the social structure (channels of information) and the norms accompanied by effective sanctions (to inhibit crime or provide rewards for conducts valuable to the community).

On the other hand, the individual approach (Bourdieu, Burt and others) sees social capital as a resource inherent to the links among the actors in social networks. Bourdieu (1985:248) defines social capital as *"the aggregate of the actual or potential resources, which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition"*. Burt (1992: 9) defines it as the *"friends, colleagues, and more general contacts through whom you receive opportunities to use your financial and human capital"*.

These views are not contradictory or mutually exclusive but rather a matter of perspective and the level of analysis considered (Masciarelli, 2011). We found not clear distinction of describing social capital as an inter-individual or inter-group resource. In fact, according to Huggins (2010), social capital is a "social" and "individual", which implies a question of how to understand and analyse the networks held by firms and other organizations, rather than those of individuals. For Gulati (1999, 2007), the network resource concept is the firm-level version of Coleman's (1988) social capital

In recent years, research on social capital has moved within one of the two directions described by Coleman, the one that describes social capital as a public good and the other school that focuses on its conception as a private asset held by a group to enhance its economic returns (Huggins, 2010). It is the second approach the one that has been adopted when doing research on management studies. From this point of view, social capital is built through the relationships of the members of the network, which gives them access to resources held by their mutual interaction. The concept of social capital has acquired importance in strategic management literature as being one of the most relevant elements that contributes to the development of competitive advantage (Nahapiet and Ghoshal, 1998, Tsai and Ghoshal, 1998, Adler and Kwon, 2002). Social capital is a long-lived asset that can compensate the lack of other types of capital but it requires attention and maintenance so as to be effective (Adler and Kwon, 2002).

We refer to social capital from this perspective of strategic management, i.e. in terms of the resources, knowledge and capabilities that are accessed and transferred within the social network and play an important role on value creation. The most relevant authors in this respect, Nahapiet and Ghoshal (1998: 243), defined social capital as *“the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit... which implies both the network and the assets that may be mobilized through that network”*. Nahapiet and Ghoshal’s work is particularly useful because it links intra-organizational networks, knowledge and social capital and it focuses on the combination and exchange of knowledge. Similarly, Lin (2001: 29) defines social capital as *“resources embedded in a social structure that are accessed and/or mobilized in purposive actions”* which makes reference to the joint actions that are created within that social structure.

3.2.3 The value of social capital

Many studies have analysed the benefits of social capital for inter-organizational networks in which the companies are embedded (Koka and

Prescott, 2002 F; Tsai and Ghoshal, 1998). Burt (1992) argued that social capital, rather than financial or human capital is the most significant factor contributing to the competitive success of the firms. Some studies have found positive relationships between (international) social capital and firm's behaviour and performance (Park and Luo, 2001; Adler and Kwon 2002; Andersson *et al.*, 2002; Freeman *et al.*, 2010; Adler and Kwon 2002; Leana and Pil, 2006). Others argue that the acquisition of foreign market knowledge through social capital can contribute to the rapid internationalization of firms (Freeman *et al.*, 2010; Lindstrand *et al.*, 2011; Prashantham and Dhanaraj, 2010). However, social capital is not a "universally beneficial resource" (Nahapiet and Ghoshal 1998, 245). As we described in previous sections, the less social capital a firm has, the more it is exposed to opportunities.

Social capital is considered as crucial to reduce the liabilities that SMEs face to overcome the problems of limited resources or experiences (Lu and Beamish, 2001). Authors as Coviello (2006) discusses that the benefits of increased social capital for the new venture can include better access to resources and international opportunities, and a means by which to overcome the liabilities of newness and foreignness. Lin (1999) argues that social capital can facilitate the flow of information, exerts influence on the agents who play a critical role in decision, acts as individual's social credentials, and reinforces identity and recognition.

There is a body of literature that links social capital or social capital elements with innovation (Tsai and Ghoshal, 1998; Molina *et al.*, 2010, Perez-Luño *et al.*, 2011; Rhee and Ji, 2011). Mu *et al.* (2008) found that through social capital firms can gain access to tacit knowledge embedded in inter-firm relationships, which in turn, enhances firm innovativeness. Li *et al.* (2007) found that the knowledge transfer among firms was unequal and dependent on localization and social capital. Appreciating the collective nature of knowledge is especially important in an age when almost every field changes too much and too fast for individuals to master (Wenger *et al.*, 2002). Interactions between firms make them know each other better, which enables them to access the partner's knowledge (Yli-Renko *et al.*, 2002). Gulati *et al.*(2000) highlight the

idea that strategic networks potentially provide a firm with access to information, resources, markets, and technologies; with advantages from learning, scale, and scope economies; and allow firms to achieve strategic objectives, such as sharing risks and outsourcing.

Knowledge and learning are social in nature (Allee, 2000), and one of the main resources available in a network is the social capital. Social capital increases the efficiency of knowledge transfer because it encourages cooperative behaviour (Gooderham, 2007). As Yli-Renko *et al.* (2001) argue, how the firms use external networks to acquire and exploit knowledge depends on the social capital they own. Social capital generates new ideas through exploiting, mobilizing, acquiring and transferring knowledge (Romer, 1990). Marcuello and Saz (2008) relate the ICA² cooperative principles with the theory of social capital and argue that the compliance of the cooperative principles generates social capital, which facilitates the knowledge absorptive capacity on the organization and makes more innovation.

Based on these three dimensions, Inkpen and Tsang (2005) analysed the characteristics of the social capital dimensions across the three network types as well as the conditions facilitating knowledge transfer. According to Inkpen and Tsang (2005) there are some conditions that facilitate the creation of new knowledge from the interactions and relationships in a network: the members must be willing and motivated to exchange knowledge and they should recognize the relevance of the new knowledge and information that the network can create. The organizations can also generate or extend the social capital through specific actions and conditions.

Table 10 shows some of the main elements of their analysis on industrial districts:

² ICA: The International Co-operative Alliance (ICA) is an independent, non-governmental organization that unites, represents and serves co-operatives worldwide. For more information visit: <http://2012.coop/welcome>.

Table 9. Characteristics of social capital dimensions and conditions facilitating knowledge transfer across industrial districts

Social capital dimensions	Social capital characteristics	Conditions facilitating knowledge transfer
<i>Structural</i>		
Network ties	Social ties as a foundation for intermember ties (network ties are a result of interpersonal relationships developed from informal social gatherings and meetings). Individual social capital forms the basis of organizational social capital.	Proximity to other members is a key. It helps the formation of network ties and facilitates interfirm and interpersonal interactions through which knowledge is exchange. The more tacit the knowledge involved, the more important spatial proximity is (Maskell and Malmberg, 1999).
Network configuration	Non-hierarchical and dense networks in a geographical region (some of them forming cliques)	Weak ties and boundary spanners to maintain relationships with various cliques. It could be through participating in the activities of professional associations.
Network stability	Dynamic, with members joining and leaving the district (which can limit opportunities for the creation of social capital)	Stable personal relationships. In this way, personal contacts with the exiting firms can be maintained and may continue to serve as useful sources of industrial information. External contacts are important channels for obtaining fresh ideas.
<i>Cognitive</i>		
Shared goals	Neither shared nor compatible goals (there could be, owing to the complexity of the network ties)	Interaction logic derived from cooperation. The logic comes from the belief that value (enhance competitive position, joint knowledge creation...) can be created through cooperation and knowledge sharing.
Shared culture	They may have various distinct cultures but tend to share and industry recipe	Norms and rules to govern informal knowledge trading (so that opportunism is subject to severe social sanctions). This can include a common language for talking about organization and cultural problems, codes of conduct, etc.
<i>Relational</i>		
Trust	Process-based (firms regularly test each other's integrity, moving from small discrete exchanges of limited risk to more open-ended deals). It is interpersonal trust	Commercial transactions embedded in social ties, as those transactions instill into future exchanges expectations of trust and reciprocity, which promote the transfer of distinctive knowledge and resources.

Source: derived from Inkpen and Tsang 2005

In sum, Inkpen and Tsang's (2005) found that in an industrial district, knowledge flows start on a personal level, because there may not be formal inter-firm relationships. However, when there are formal relationships they will tend to be commercial transactions as well. In this type of networks individual social capital is critical as it drives the development of organizational social capital.

Previous research has focused on the unequal distribution of knowledge in a cluster (Dosi 1997; Giuliani 2007). The key idea is that instead of using traditional, formal command-and-control structures that are often ineffective, knowledge management is best facilitated by informal social capital, which refers to the informal benefits individuals and organizations derive from their social structures and networks (Kostova and Roth, 2003, Inkpen and Tsang, 2005, Gooderham *et al.*, 2010).

The social capital within the network increases the efficiency of the firms, diminishes the probability of opportunism and reduces the need for costly monitoring processes, but forming and exploiting it requires investment and time (Antoldi *et al.*, 2011). Social capital is dynamic and it can become obsolete or depleted over time (Prashantham and Dhanaraj, 2010). For doing that, the role of the network facilitators could be crucial. McEvily and Zaheer (2004) analysed the role of institutions as facilitator in fostering collaboration among actors involved in geographical industrial networks. Strong links within the cluster (dense networks) foster trust and the transfer of high quality information and tacit knowledge (Coleman, 1988; Uzzi 1997). Weak ties (disperse networks) create structural holes that restrict redundancy ties and provide access to new information and knowledge (Burt, 1992).

Social capital has an important role in facilitating firms the acquisition and creation of knowledge (Tsai and Ghoshal, 1998), which also affect the knowledge transfer in multinational corporations (Inkpen and Tsang, 2005; Maurer and Ebers, 2006; Lindstrand *et al.*, 2011). Social capital embedded in business networks can help reduce psychic distance and influence foreign market entry decisions (Holm *et al.*, 1996; Chen and Chen, 1998; Chetty and Holm, 2000; Zhao and Hsu, 2007). The social networks then play a facilitator role for companies when selecting a foreign entry mode. Thus, the firms that enter a market that is not highly internationalized tend to follow the route of agents by investing in those relationships, or will acquire a firm with an established position in the international network to benefit from its knowledge and network links (Susman, 2007).

Authors such as Martin (1994) and Trigilia (2001) have link social capital literature with territorial literature (Parra- Requena *et al.*, 2010). In terms of local development, Trigilia (2001) emphasizes the importance of the aggregate effect of social capital in a particular territory, and argues that “*the availability of network of social relations spread between individual subjects (firms, workers) and collective actors (interest groups, public institutions) can condition the paths of development*” (Trigilia, 2001: 433). Esparcia *et al.* (2016) local development processes should be analysed and conceptualized paying greater attention to the social dimension, and in particular to the relational component of social capital. The importance of social capital has also been regarded as a means for capability expansion, community stability and empowerment, and poverty alleviation (Ansari *et al.*, 2012). However, some voices point out that the relationship between social capital and economic growth or development is not that clear. DeFilippis (2001) argues that the Putnam’s understanding of the term has lost its potential utility for the community development movement. Portes (1998) describes several positive and negative effects of social capital that are summarized on the following table 11:

Table 10. Positive and negative effects of social capital

Positive effects	Negative effects
<ul style="list-style-type: none"> ✓ Social control ✓ Family support ✓ Extrafamilial networks 	<ul style="list-style-type: none"> ✗ Exclusion of outsiders ✗ Prevention of success of member initiatives ✗ Restrictions to individual freedom ✗ Downward leveling norms

Source: own elaboration, derived from Portes, 1998

3.2.4 International social capital

Regarding subsidiaries, Gnyawali *et al.*, (2009: 392) describe that the social capital of a subsidiary represents its reach of “*collective network resources through its partners and through partners’ direct partners*”. It is frequently argued that international success comes when firms access information about foreign markets from external parties (Presutti *et al.*, 2007). Masciarelli (2011: 81) defines the concept of international social capital as “*the relationship that*

the firm establishes with foreign actors that have access to various knowledge domains". The author adopts Bourdieu's vision and considers social capital as a resource and source of information. She suggests that to benefit fully from offshoring intangibles, firms must invest in international social capital in order to facilitate the acquisition, coordination and integration of complex flows of knowledge, benefit from cost savings and increase efficiency. She found that the firms' investment in international social capital guarantees a higher level of control over the entire process of offshoring, reinforcing the positive effect of the offshoring of intangibles on firms' performance. On her research Masciarelli (2011) used secondary data and surveys related to the offshoring of intangible activities to analyse international social capital of Italian firms but calls for future research on the role of international social capital as for example on how the strength of social ties has different effects on firms' behaviour.

There is a substantial number of studies that address how social capital impact internationalization, although not all actually use the term social capital (Agndal *et al.*, 2008). Evidence of the role of social ties in internationalization has been provided by Ellis and Pecotich (2001) and Harris and Wheeler (2005). It has been proposed theoretically (Oviatt and McDougall, 2005), and empirically (Sharma and Blomstermo, 2003) that firms' social capital and networks can influence firms' international expansion and performance, especially on international start up, new ventures and SMEs' performance (McNaughton and Bell, 1999; Han, 2006; Oviatt and McDougall, 2005; Slotte-Knock and Coviello, 2010; Prashantham and Dhanaraj, 2010). Yli-Renko *et al.* (2002) analysed how social capital impact positively on the acquisition of knowledge and on international growth. In the context of the clusters in the Basque Country, Valdaliso *et al.* (2013) found that social capital fosters intra-cluster knowledge linkages, and cluster's internationalization the extra-cluster ones.

Some studies on entrepreneurship (Kontinen and Ojala, 2011) or SMEs (Chetty and Agndal, 2007; Agndal *et al.*, 2008) have investigated the role of social capital in the foreign market entry. Social capital can both affect and be

affected by FMEs, depending on when it is employed in the firm's internationalization process (Agndal *et al.*, 2008). Agndal *et al.* (2008) found that in foreign market entry, the serendipity role of social capital becomes more influential when a firm is entering a geographically or psychologically distant market. According to Chetty and Agndal (2007: 11) the serendipity role refers to “*the unexpected events arising from a firm's social capital that trigger a mode change*”. This could mean that for the case of China, this role of social capital could be especially relevant. Kontinen and Ojala (2011) analysed social capital in relation to the foreign market entry and post-entry operations for family SMEs. They found that in foreign market entry, social capital had a serendipity role while in the post-entry situation the role of strong and formal ties emerged strongly and social capital took on efficacy and liability roles. They argue that when firms start to internationalize, they have to find new networks to gain the bridging social capital that will enable foreign operations.

Expatriate assignment has long been perceived as an effective mechanism for MNCs to manage and assess the strategies and actions of subsidiaries (Chiu *et al.* 2009; Tung, 1993). Expatriate social network play a key role in forming foreign market entry strategies, facilitating the communication, learning and transferring knowledge, and strategy making and implementation between MNC headquarters and subsidiaries (Wagner and Vormbusch 2010; Chung and Tung 2013; Shimoda 2013;). In the context of country-of-origin FDI agglomerations, expatriates mutually engage in the social interactions with each other through activities such as sporting events and family activities (Tan and Meyer, 2011). These social interactions not only provide valuable personal social support for the expatriates and their families but also play a central role in the sharing of knowledge about the local market (Feldman and Bolino 1999; Tan and Meyer, 2011). The social network developed by expatriates at the micro, interpersonal level feed into a macro, inter-organizational strategy of depending on networks to expand the firm, thus giving rise to a micro-macro link (Peng and Luo, 2000; Peng *et al.* 2008). It is thus imperative for international business scholars to examine the multi-level social interactions among expatriates and their parent firms because both the micro and macro levels are inextricably connected.

3.3 Dimensions of social capital

Authors such as Angdal *et al.* (2008) state that social capital includes the network of relationships, which is a structural dimension, as well as the usefulness of the network of relationships, which is an economic dimension. They separate social capital into efficacy and serendipity roles (economic dimension) and direct and indirect relationships (structural dimension).

However, the most utilized classification is that of Nahapiet and Ghoshal (1998), who categorized social capital into structural, relational, and cognitive dimensions. All of three dimensions affect knowledge acquisition and knowledge transfer of multinational corporations (Inkpen and Tsang, 2005; Maurer and Ebers, 2006; Lindstrand *et al.*, 2011). We will focus on this classification of the social capital dimensions.

3.3.1 Structural dimension

The structural dimension highlights the network configuration and what knowledge is available through the structure (Lindstrand *et al.*, 2011) and describes the overall pattern of connections between individual members of the network (Coleman, 1988). Inkpen and Tsang (2005) describe network ties (the ways the actors are related), network configuration (hierarchy, density, connectivity) and network stability (change of membership in a network) as part of the structural dimension of social capital. This dimension describes the overall pattern of connections between individual members of the network (Coleman, 1988) and is associated with Granovetter's (1985) structural embeddedness. Grootaert and Van Bastelaer (2002) identified the structural elements of social capital as the ones related to networks, roles, rules and precedents. They added to the concept of structural dimension the distinctions among types of organizations: horizontal/ vertical, heterogeneous/homogeneous and formal/ informal. The network structural characteristics are the patterns of ties among network partners, which can be described in terms of

size, diversity, localization, closeness and frequency (Wang and Kanungo, 2004).

Network ties serve as channels for social resources, such as information, emotional, instrumental and appraisal support (Wang and Kanungo, 2004). Different authors in the literature of industrial districts have described how the interaction among the workers can be improved by their participation in local associations or clubs of diverse nature, and how the exchange of human resources within the district can generate information and knowledge transfer (Molina-Morales *et al.*, 2008). Social interaction is often mentioned as part of network ties and the structural dimension (Maula *et al.* 2003; Masciarelli, 2009), that in general have to do with variables representing friendship and spare-time socialization.

The strength of a tie is a (probably linear) combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services which characterize a tie (Granovetter, 1973: 1361). Strong tie is also defined as close, which is based on trust, mutual respect and commitment (Kontinen and Ojala, 2011). As suggested by some authors (Mäkelä and Brewster, 2006) strength of ties emphasize on the frequency of interaction and intimacy or closeness of the ties. Ghoshal *et al.* (1994) analysed the interunit communication in multinational corporations by mainly focusing on the interpersonal relationships and frequency of communication. They found that interpersonal relationships developed through lateral networking mechanisms such as joint work in teams, taskforces, and meetings have significant positive effects on the frequency of both subsidiary-headquarters and inter-subsidiary communication. The frequency of interactions of a relationship is an important indicator of the time and effort that the partners invest in one another (McFadyen and Cannella, 2004).

According to Mäkelä and Brewster (2009:5) the strength of the relationship, has in previous research been found to influence both collaboration and knowledge sharing in organisations (Granovetter, 1973; Hansen, 1999; Reagans and McEvily, 2003). Black's (1990) study demonstrated that expatriate interaction frequency (from annually to daily) with local national friends, home national friends and

social groups will facilitate their cross-cultural adjustment. Many authors have point out to the importance of intense and frequent interactions to transmit information and tacit knowledge and authors such as Tsai and Ghoshal (1998) have proofed this idea empirically.

Strong ties are considered to be connections to others with whom we are intimate and intensely emotionally involved and with whom we interact frequently on a social basis (Brown and Konrad, 2001). Hansen (1999) found that strong ties facilitated the sharing of tacit knowledge, and that weak ties helped in the search for new knowledge, while Reagans and McEvily (2003) argued that strong ties assist the sharing of all, not just tacit, knowledge. Despite this, strong ties also involved maintenance costs, so individuals can only have a certain number of close relationships (Singh, 2000). Strong links and dense networks facilitate trust, transfer of relevant information, tacit knowledge and are useful both for the exploitation of knowledge as a control system for the members to govern their exchange linkages (Coleman 1988, Larson, 1992, Uzzi, 1997). However, weak ties and disperse networks create structural holes that give access to new opportunities as it restricts redundancy ties and facilitate access and explore new knowledge (Granovetter, 1973; Burt, 1992).

Strong ties are crucial for knowledge development (especially when we talk about tacit knowledge), as they have some of the following effects: facilitate trial-and-error activities, new set of routines, discussions, or reflection, help to achieve reciprocity, common goals, and goodwill that reduce the need for formal monitoring, help to develop compatible systems and cultures and idiosyncratic routines needed to engage in mutual activities and share and develop knowledge, align key managers in joint activities and thus engage them in shared learning experience (Gnyawali *et al.*, 2009). In other words, the causal agent determining whether a tie will provide access to new information and opportunities is the extent to which it is non-redundant (McEvily and Zaheer, 1999: 1136). In relationship with foreign market entry, Agndal *et al.* (2008) found that both direct (cf. strong) and indirect (cf. weak) ties are important but direct ties are more important in the early phase, whereas indirect ones in later phases.

There is evidence that inter-organizational collaborations are more likely if partners have similar status and power (Ring and Van de Ven, 1992). However, the value of diversity to innovation is a well-established idea in the collaboration literature, which often recommends bringing together individuals with different backgrounds to generate new ideas (Hardy *et al.*, 2005; Ozcan and Eisenhardt, 2009). In clusters, there is a need for managers to build diverse relationships with new and unknown members in order to obtain new ideas and facilitate innovation (Martinez del Rio *et al.*, 2013). Wang and Kanungo (2004) found that expatriates should socialize not only with peer expatriates but also with local people as it guarantees social support from different sources.

Network configuration includes elements such as the hierarchy of the network (Inkpen and Tsang, 2005). As far as formality is concerned, the boundary between formal and informal ties is diffuse but in general it is considered that a formal tie is that based on business or market relationships (Adler and Kwon, 2002; Coviello and Munro, 1997) while informal ties are related to a more social aspect, such as friendship or family relationships (Coviello, 2006). Interestingly, Chetty and Wilson (2003) found that early internationalizing firms focus on formal networks whereas less international firms rely more on informal networks.

We also find in the literature a classification of bonding and bridging social capital, which is related to the structural dimension of social capital, especially to those aspects of network ties and their strength. This classification refers to the intra-communitarian linkages and socialization within similar people (same age, race, religion and so on) that give cohesion to the group (bonding social capital) and the inter-communitarian linkages (with different people) or the bridging social capital. According to Kallio *et al.* (2010) bridging social capital creates bonds of connectedness formed across diverse horizontal groups (weak ties), whereas bonding social capital connects only the members of homogeneous groups (strong ties). This is, when the density is high and the ties strong, we talk about bonding capital whereas when the networks are disperse and the ties weak, we talk about bridging capital. In studies on ties among actors within a collectivity, the focus is on internal or bonding social

capital (Adler and Kwon 2002; Yli-Renko *et al.* 2002). Studies on external relations focus on bridging social capital where the key is the relations that an actor maintains with actors outside his/ her network (Adler and Kwon, 2002). Bridging social capital is the case when we find structural holes. We distinguish these two dimensions as follows:

Bonding social capital: strong links and dense networks are linked to trust, transfer of high quality information, tacit knowledge and serve as control system for the members to govern their exchange (Coleman, 1988; Larson 1992; Uzzi 1997; Molina *et al.*, 2008) but are more likely to have redundant information (Granovetter, 1973). This social capital is related to homogeneous groups and people of similar characteristics (Granovetter, 1985; Putnam, 1995).

Bridging social capital: The weak ties facilitate access to new information and resources and exploration of new knowledge (Granovetter, 1973; Burt, 1992). Burt (2001) argues that not having those close ties could be beneficial as it facilitates individuals' mobility. This is in line with Portes' (1998) "structural holes" concept. Structural holes are defined as "opportunity that an actor has to negotiate with the information flows and to control the projects carried out by the people who are at opposite ends of the social network" (translated, Molina-Morales, 2005). This dimension is related to the creation of ties through diverse horizontal groups (Granovetter, 1985; Putnam, 1995). Kontinen and Ojala (2011) noted that family SMEs are less likely to form networks (bridging social capital ties) but factors such as unification of ownership and management form strong bonding capital.

According to Lazerson and Lorenzoni, (1999), redundancy derives from highly specialized firms that perform similar but slightly different functions, which forces them to both imitate each other and distinguish themselves by developing incremental process and product improvements. The idea behind the concepts of redundancy and structural holes is that the firms gain access to new information and opportunities (non-redundant) through the structural holes. Molina-Morales (2005) also argues that to avoid the risk of "lock-in"

(difficulties to face external changes) weak ties are preferred, which is accomplished by dispersing and providing a greater autonomy to those relations in the network. In terms of structural holes, local institutions within clusters can act as intermediary agents by providing contacts with external, otherwise unconnected “actors” belonging to very different circles and thus “bridging” social capital (Capó-Vicedo *et al.*, 2008). According to Brusco (1993, in Hoffmann *et al.*, 2016) local institutions may be linked to public sector or be an agency specialized in providing services to the local industry. They could be universities, vocational training centres, business associations, funding bodies, and/ or government agencies (Hoffmann *et al.*, 2016).

Within China context, Park and Luo (2001) argues that, given the uncertainty and confusion in China’s transition economy, firms develop guanxi to broker structural holes and alter the existing network structure. The linkage between strong ties, trust and knowledge sharing is significant in the Chinese context as people are much more likely to share knowledge once they have created a long-term relationship (Mu *et al.*, 2008). A large, diversified and active personal network will help the expatriate to obtain social resources that will aid him/ her in adjusting to the local environment (Kuo and Tsai, 1986). Manev and Stevenson (2001) found that expatriates may be skilful at developing instrumental ties across cultures but they still rely on colleagues of similar culture for social ties.

Many authors (Adler and Kwon, 2002; Capaldo, 2007) that bonding and bridging capital are not exclusive and that firms need both types of social capital to obtain a competitive advantage for the firm. As Molina-Morales *et al.* (2008) conclude, the social capital that firms need is influenced by their information requirements (exploration or exploitation) and they should have a mix of both types of linkages. Exploration needs are related to broad and generic information that put the emphasis on identifying alternatives, not on understanding how to develop an innovation. On the opposite, exploitation is linked to specific information and deep understanding of a particular area.

3.3.2 Cognitive dimension

The cognitive dimension conveys the perspectives, narratives, values, language, and goals that the individuals share with each other (Nahapiet and Ghoshal, 1998). It refers to the mutual understanding of appropriate ways to interact through a common language or sharing experiences. It has impact on resource acquisition and exchange within the network (Tsai and Ghoshal, 1998; Lindstrand *et al.*, 2011) and provides the foundation of communication (Gooderham, 2007). Molina-Morales *et al.* (2015) showed that in industrial districts, high cognitive uniformity and institutional proximity produces a negative impact on the formation of network ties. Network managers can build a shared meaning through specific management practices, such as the creation of forums where the network-specific goals, mission and group values are discussed, which are the pillars for developing a shared vision and common goals (Wegner *et al.*, 2012). In inter-organizational networks, problems are typically resolved through discussion, and rules and norms of reciprocity ensure cooperation (Powell, 1990; Uzzi, 1997).

Inkpen and Tsang (2005) describe two facets of cognitive dimension, the share goals (the degree to which network members share a common understanding and approach to the achievement of network tasks and outcomes), and shared culture (the degree to which norms of behaviour govern relationships).

There are different networks in a firm that shaping the interests and behaviour of subunits, so there will always be forces striving to push the enterprise in several different direction. The existence of common vision and shared goals make the actors be perceived as more reliable and less opportunistic, thus facilitating the access to knowledge and information (Tsai and Ghoshal, 1998). Gnyawali *et al.* (2009) describe goal congruence as the extent to which potential partners believe that a tie between them is beneficial to achieve their knowledge priorities, which could be a function of the expected payoffs and their mutual interdependence. They proposed that the higher the goal congruence between the focal subsidiary and the potential partner subsidiary,

the greater the likelihood to form ties with each other, to discuss and agree to invest in joint projects, combine their knowledge and create unique knowledge.

Forsgren (2008) emphasizes the role of shared values when addressing the centrifugal and centripetal forces that appear in the business network theory. The contingency theory assumes that this problem could be eliminated by the HQ's ability to design the organization efficiently and in the differentiated network perspective, the solution is to introduce the concept of shared values by assuming that common norms and goals will stop that problem.

Shared culture refers to the degree to which norms control the relationships, that is, the set of institutionalized rules and norms that govern behaviour in the network (Inkpen and Tsang 2005). If the members share a business and entrepreneurial culture, they can share goals, concerns, processes, routines, interests, etc. (Rowley, 1997). In consequence, common culture includes many different aspects, such as codes, language, histories, visions, or goals that permit and improve the understanding between the parties, thereby facilitating knowledge transmission (Parra Requena *et al.*, 2010).

This cognitive dimension can be found in the notion of feeling of belonging in districts (Becattini, 1979). Collective identity is a concept grounded in classic sociological constructs: Durkheim's "collective conscience," Marx's "class consciousness," Weber's *Verstehen*, and Tonnies' *Gemeinschaft*. So, the notion addresses the "we-ness" of a group, stressing the similarities or shared attributes around which group members come together (Cerulo, 1997). As Mu *et al.* (2008) argue, the social interaction across groups can develop a strong sense of social identity, which offers firms access to knowledge stock of other firms. In industrial districts, this dimension is related to the members' feeling of belonging (Becattini 1979). Shared identity is a strong predictor of relationship formation not only among individuals but also among organizations (Chung, Singh and Lee, 2000).

According to Hardy *et al.*, (2005) there are two specific types of conversations that are particularly critical to the production of collective identity within a collaboration:

(1) Conversations that produce *generalized* membership ties- discursively constructed relationships that connect participants to a common issue around which the collaboration is organized. They provide a basis on which participants can identify an issue as relevant to their organizations and consequently identify themselves as interested in or affected by it.

(2) Conversations that produce *particularized* membership ties, which connect the participants directly to each other, rather than indirectly through an issue. Are those that refer to specific persons, places, and objects and, consequently, provide a set of discursive resources, from which participants can position themselves as connected in specific, identifiable ways.

Both can be produced within the same conversation and together they provide the foundations for the discursive construction of a collective identity.

A group of communities with outstanding cultural barriers will find natural networking to be difficult (Tallman and Chacar, 2011). Geographical proximity help building on shared norms, language and culture (Ouchi, 1980).

3.3.3 Relational dimension

The relational dimension includes the personal relationships that individuals develop with each other through repeated interactions (Häkansson and Johanson, 1992; Gooderham, 2007). The main components are trust, trustworthiness, and social interaction between the individuals (Lindstrand *et al.*, 2011). Networks can be the common space to share knowledge, but it is trust what facilitates knowledge transfer and collaboration. This dimension also refers to the norms and sanctions, obligations and expectations, identity and identification with a group in a network (Coleman, 1990; Putnam, 1995; Mäkelä and Brewster, 2009). Researchers identified several factors that characterize the relational dimension: the strength or intensity of the

relationships (McFadyen and Canella, 2004), the trust among the actors (Nahapiet and Ghoshal, 1998; Inkpen and Tsang, 2005) and the reciprocity of their actions (Nahapiet and Ghoshal, 1998). Reciprocity is believed to ensure cooperation (Powell, 1990; Uzzi, 1997) and thus, reciprocity norms are important within the network (Coleman, 1990).

For Malmberg *et al.* (1996) the common location ease communication as it offers language and cultural similarities, social bonds, norms and values. Maskell's (2005) argument goes in the same line as he argues that the climate of understanding and trust that is created reduces malfeasance, induce reliable information, place negotiators together and ease the sharing of tacit knowledge. The potential benefits of trust are often fully realized only when interactions are leveraged through network or associations (Grootaert and Van Bastelaer, 2002).

Trust could be built through interactions and personal contacts, elements that are easier to take place when members are geographically close (Gulati, 1995). As Putman (2000: 176) argues, "*building trust and goodwill is not easy in cyberspace*". As Gnyawali *et al.* (2009) argue, while information and explicit knowledge can be transferred by web, wireless telecommunication, intranets, etc. tacit knowledge requires mutual commitment and long-standing relations among the units. Schmitz (1995) found that trust between the actors in the ID in Brazil was to do with factors such as ethnicity (German descent) and geography (being local), which is in line with the idea that trust depends on the socio-cultural ties between the members. This is in line with Rabelloti (1995) suggesting that common social origin, political homogeneity or sharing values, codes and languages contribute to a cooperative environment.

According to Gooderham (2007) such facets of personal relationships as trust, obligations, respect and even friendship increase the motivation to engage in knowledge exchange and teamwork. Several authors point out that trust facilitates knowledge transfer and collaboration between the actors involved (Adler and Kwon, 2002; Nahapiet and Ghoshal, 1998; Tsai and Ghoshal, 1998; Inkpen and Tsang, 2005; Lui, 2009; Welter, 2012) and the exchange of tacit

knowledge (Uzzi, 1997; Zaheer *et al.*, 1998). It could be assumed that the more intensive types of relationships are characterized by a higher level of interpersonal trust, because they involve more time together and allow for more intensive face-to-face interaction. Trustworthiness of potential subsidies would tend to reduce monitoring costs and provide flexibility during information exchange of knowledge (Gnyawali *et al.*, 2009). Uzzi (1997) argue that in an embedded logic of exchange, trust acts as the primary governance structure and this relational element of social capital enables fine-grained information transfer. Reliability and dependability have usually be central to trust relationships (McAllister, 1995).

In networks, it is possible for firms to co-operate mutually without any written agreement, this is primarily due to the fact that involved agents are fully aware of the established practices in those settings, routines and unwritten rules of acceptable business behaviour and crucially trust is the most important factor (Vatne and Taylor, 2000). As Mu *et al.*, (2007) found, trust-based ties developed in inter-firm interaction process, accelerates knowledge flow, and acts as an informal governance mechanism between firms. They found that strong ties based on reciprocal trust could facilitate the transfer of more tacit capabilities and in-depth expertise within and outside the firm boundaries, which is consistent with the knowledge-based view of the firm.

In an empirical study of both Japanese expatriate and host national employees in a Japanese organisation based in Indonesia, Shimoda (2013) highlights the importance of “talk”, especially small talk, as an initial action that supports the knowledge sharing and trust building. This view is supported by Coupland (2003: 1) who perceives small talk as a social function which “*enacts social cohesiveness, reduces inherent threat values of social contact, and helps to structure social interaction*”.

For Welter (2012) trust is a multidimensional concept: personal and collective trust for example overlap in terms of trust object and trust sources, communities and organisations consist of people so personal trust can foster collective trust. There are obvious links between different levels, forms and

sources. The common wisdom seems to be that trust is a precondition for successful collaboration but in practice, suspicion (rather than trust), is the starting point. Trust can be built by starting with some modest but realistic aims that are likely to be successfully realized, as this reinforces trusting attitudes and provides a basis for more ambitious collaboration (Huxham and Vangen, 2005).

According to Welter (2012), trust implies that there is a perception for other agents to behave in a way that is expected and benevolent. As Trigilia (2001) argues, information and trust are qualities that restrict opportunism as a mean for cheating or fraud in business. Opportunistic behaviour in alliance-building processes could increase transaction costs, reduce trust, and discourage reciprocity and repeated commitment (Luo 2002; Antoldi *et al.*, 2011). As Mu *et al.* (2008) found, news about a firm's behaviour disseminates quickly between the firms and its interacting partners, and opportunistic behaviour with one firm may result in lost opportunities with other firm. They argue from their findings that trust is engendered in the process of long-term ongoing cooperation, it enables firms to detect opportunistic behaviour, and greatly influences the mode of knowledge flow, knowledge creation, and styles between the networking firms while enhancing the efficiency and effectiveness of such cooperation.

Attachments in collaborative relationships reflects the prior history of an exchange relationship (Seabright *et al.*, 1992). Cooperation needs attachment and binding between the partners to overpass opportunism or foster trust (Inkpen and Beamish, 1997). Once relationships are established, individuals can remain socially close even when they become geographically separated (Agrawal *et al.*, 2006). When two parties are attach and trust each other they are more likely to share resources without worrying for opportunistic behaviours (Uzzi, 1996) so trust may be consider a pre-condition for cooperation.

In sum, the spatial proximity of the members in a country-of-origin agglomeration help building trust among the members, which fosters the

exchange of confidential and tacit knowledge, reduces the opportunistic behaviour of the members and help them solve problems at a low cost.

3.3.4 Dimension interdependency

As Tsai and Ghoshal (1998) suggest, there are connections and interdependencies between all three dimensions. Scholars of social network theory have argued that structural and relational properties have different but complementary roles and thus, the implications of networks could be understood better by investigating the effects of both sets of properties (Gnyawali *et al.*, 2009). Shared goals and culture, and other elements such as shared values or vision as expressions of cognitive social capital also favour the development of trusting relationships, associated with strong ties (Parra-Requena *et al.*, 2010). Mutual goals are related to trust, as a higher goal correspondence make the members be likely to share knowledge, provides the incentive for frequent and repeated interaction and this fosters trust (Gnyawali *et al.*, 2009). Parra-Requena *et al.* (2010) found that the cognitive dimension is particularly relevant to explain the connection between location inside the district and valuable knowledge acquisition through external contacts.

3.4 Conclusions and propositions

As we have seen from previous sections, collaboration provides a number of benefits for the firms. However, co-location is necessary but not sufficient for the member firms to interact and collaborate. It could be seen as the platform where firm could benefit from being together, but for that firms need to engage on joint cooperation. The spatial concentration of firms with high levels of interactions provide advantages from the trust built among the members. Country-of-origin FDI cluster enables firms to have easier and more frequent access to a variety of knowledge which includes the tacit and sensitive knowledge about the local market. This spatial networks facilitates the exchange of valuable knowledge thanks to a particular network resource, the social capital, that is built easily among firms that are co-located interact with each other.

Social capital of a subsidiary network could be considered the network resource that gives value to the member firms. The embeddedness into the network could be seen as a strategic resource that have structural, cognitive and relational dimensions. If this network is at the host country, that interaction could be used to acquire locally based knowledge.

Thus, as compared to the previous chapter, social capital is not that focused on externalities but on the strategic asset that emerges from the actors and the relationships among them. In fact, the geographical proximity is the necessary but not sufficient conditions for social capital to emerge and create externalities. When this is done in a country- of-origin cluster, we can consider it as *international social capital*. In this sense, the interest replies on the study of the creation, use and transfer of that capital.

There is a gap in the literature that links country-of-origin industrial agglomeration, social capital and knowledge. The previous research has not fully explored the role of social capital in the foreign market knowledge acquisition of multinational corporations within country-of-origin industrial park in emerging economies. The structural, relational, and cognitive dimensions of social capital affect the construction of expatriate social networks, but the way of how this is created and configured differs among expatriates. It is unclear how country-of-origin foreign subsidiaries co-located within an industrial park are able to realize collective learning, opportunity creation, and trust building in the course of internationalization in an emerging economy. This research fills in this gap by analyzing the characteristics of social capital dimensions (structural, cognitive and relational) in more detail within the co-located subsidiary network forged within the country-of-origin industrial park.

Literature acknowledges the critical and expensive resource that are expatriate employees for all the stages of expatriation cycle (, i.e. recruitment, selection, arrival, on-site support and repatriation). Country-of-origin clusters are the platforms to create and build a collaborative expatriate network that creates the international social capital that can be used by the subsidiary members as a

strategic resource that diminishes opportunism, enhances trust and legitimacy. The literature review allows us to rely on the idea that COO cluster enables learning from a living place through an inter-organizational expat's CoP, which generates value in the form of international social a strategic resource that can be used to reduce their liabilities in emerging countries. Therefore, we expect the following:

Proposition 3a: subsidiaries make use of network resources and in particular of social capital, in different ways.

Proposition 3b: The heterogeneity on the subsidiaries' activities and managers' profiles enables the subsidiaries to learn, innovate and explore knowledge in the local setting.

CHAPTER 4. RESEARCH CONTEXT: CHINA

As Heimer and Thøgersen (2006) state, to understand better how China is changing it is required a stronger base of empirical observations from the field. Many argue contextual dimensions are what differentiate domestic research from international business and international management research (Buckley, 2002; Child, 2009; Oesterle and Wolf, 2011). Contextualization has been seen from many different perspectives. Whetten (2009) and Tsui (2004) differentiate context-specific and context-bound theory development, and Child (2009) discusses an 'outside in' versus 'inside out' perspective of contextualization (Teagarden *et al.*, 2015). Shapiro *et al.* (2007) suggest a more complex perspective when they introduce the concept of 'polycontextuality,' which refers to multiple and qualitatively different contexts embedded within one another. They focus on the case of China and recommended the polycontextual sensitive research method to supplement the scientific deductive research typically designed to study observable phenomena based on a singular context.

These studies show that context is important when conducting international business research and that the contextual variables can influence the understanding of a research phenomenon. In line with this, Meyer (2015) recently reviewed the actual situation of context in management research in emerging economies and emphasizes the importance of examining the contextual boundaries of theories and evidence so as to advance robust, insightful and relevant scholarly knowledge.

The aim of this chapter is to better understand the specific context that frames our case study, i.e. the country-specific context (China). For that purpose, the chapter is structured as follows. First, we will look at inwards FDI in China, its determinants and evolution. Secondly, we will go into details about the agglomeration and social capital in China. We will finish describing the research setting in terms of where the firms of our sample are located.

4.1 FDI in China: determinants and evolution

Developing Asia, with its FDI flows surpassing half a trillion US dollars, remained the largest FDI recipient region in the world, accounting for one third of global FDI flows and China became the world's largest recipient of FDI (UNCTAD, 2016). In quite a relatively short time, China has emerged global having joined the WTO, strengthened ties with ASEAN, hosting the 2008 Olympics and becoming according to some, not only the regional leader in East Asia but the future world superpower. It is impressive that while other developing nations generally experience periods of boom and bust, China has enjoyed a steady growth-rate above 9% since the 1980s and in the last 20 years 250 million people in China have been lifted from poverty (Fernandez and Underwood, 2006). However, as an emerging economy, China has experienced substantial institutional changes and development (Cooke, 2006; Luo, 2007; Li and Park 2006; Bellandi and Caloffi 2010) and foreign investors still face significant difficulties when operating in China (Root, 1996; Luo and Park, 2001; Child and Tse, 2001; Chen *et al.*, 2006).

When China announced its reform plans in 1978, many could not foresee the spectacular growth that it will record later on, especially since 1992. The historical precursor of industrialization in China can be traced to the Song Dynasty when steel was invented, produced and used extensively by the public but after the establishment of People's Republic of China (PRC) a real sense of industrialization did not happen until 1958, in the so called "*Great Leap Forward*" campaign of Mao Zedong (Zhang and Rasiyah, 2014).

As we will analyse in this section, the economic development and growth in China has strongly been linked to the foreign direct investment and the agglomeration of industrial activity in certain regions of the country. Trade has played a crucial role stimulating economy in China but not all the regions have benefited in the same way. Those in the Eastern provinces have been (and continue to be) the most developed regions, mainly due to the proliferation of special economic zones (SEZs) in the coastal cities such as Guangdong.

Jiangsu for instance has gone from representing 9,62% of China's trade in 2000 to represent 16,77% in 2005 and 11,66% in 2010 (Zhang and Rasiah, 2014). The understanding of the country-specific characteristics of the historical, economic and political development of FDI and industrial policy will better frame our case study, which is an industrial park created in Jiangsu province, China by foreign investors.

Zhang and Rasiah (2014) showed that rising trade and flows of foreign direct investment has not only quickened industrialization and structural change but it has also stimulated a rapid rise in overall and manufacturing real wages. According to these authors, although the nature of economic development after reforms has also widened regional inequalities with the Eastern coastal provinces enjoying higher growth and structural change than the Western and other inland provinces, rising wages suggest that the material conditions of the majority of workers in China have improved.

Before reforms, China was not always a closed economy as from 1949 through 1960 she was quite open to trade, mainly from the Soviet bloc (Naughton, 2007). When Sino-Soviet relations deteriorated and Soviet technicians left China, China responded with strict self-reliance, The Great Leap Forward (Robinson and Stones, 1998). The early 1970s were thus the low point of China's relations with the world economy and in the 1970s, Chinese trade took place in the context of a planned economy. The purpose of foreign trade was to import goods that could not be produced by Chinese firms and would resolve domestic shortages or bottlenecks for modern technology; exports were seen as necessary to pay imports (Naughton, 2007). China exported primary products and imported machines, equipment or industrial components and raw materials but the resource allocation and distribution was controlled by the central government, only the natural resources were attracting inward FDI.

After 30 years of isolation, China decided to open up again for FDI and since then it has taken numerous measures to improve its attractiveness for investors. Regarding the different periods 1979-1982 was the period of deregulation of the FDI policy, 1983-1985 the introduction of market mechanisms, 1986-1988

the introduction of performance requirements, and 1989-1991 the political crisis (Zhang and Van Den Bulcke, 1996).

FDI has played a very important role in China's post-1978 economic development. There was not much inward investment until policies changed in 1979, when the Law of Joint Ventures (JVs) was passed and four "special economic zones" (SEZs) were established in 1980 in Guangdong and Fujian, which will later become the nodes in the Chinese trade economy. During 1979-1982, the number of contractual JVs in the total number of FDI project accounted for 86% and the equity JVs were small sized and not integrated with the local market.

Foreign firms were attracted to China not only due to its domestic market but also because of its potential as an export platform. The government initially wanted foreign affiliates to be export-oriented and firms were attracted by the availability of skills at low wages, which converted China on the "workshop of the world". Over half of China's exports originate today from foreign affiliates located in China (Sauvant, 2011).

After the liberalization package was adopted in 1984, the imports increased 50% (Naughton, 2007) and the policy makers scaled back many reforms but the measures and regulations created (liberalize FDI policy, introduce tax and tariff incentives, measures for repatriation of profits, transfer of technology, foreign exchange operations...) gave more autonomy to foreign invested enterprises and created a framework for the later growth of trade and investment. Between 1986 and 1988, the difficulties to balance the foreign exchange became severe and the decentralization caused local trade and non-trade barriers. In 1986 the growth of inward FDI stopped (contracted value declined by 47%) and the "22 regulations" (or the "*Provisions for the Encouragement of Foreign Investment*") were implemented (Branstetter and Lardy, 2006). The military intervention against students in Tiananmen Square provoked the decrease of FDI from EU and North America and the one from Taiwan practically doubled (Zhang and Van Den Bulcke, 1996). Chinese

government initiated a working plan for an industrial policy in 1989 that completed in 1994.

In the 1990s, the scale of FDI increased considerably, as a share of GDP, FDI increased from about 1% in the 1980s to about 4% of GDP in the 1990s, and has been around 3% from 2000 to 2007 (La Fleur, 2010). It is generally unappreciated that China achieved a degree of openness to foreign trade before its accession into WTO, even if the drive to liberalization of trade and FDI regimes seems to have dramatically accelerated in the late 1990s (Branstetter and Lardy, 2006). Zhang (2006) stated that one of the changes since the mid-1990s has been that WFOEs became the dominant entry model of FDI into China (60% of the total FDI in 2001) and foreign investors no longer favoured JVs. In the late 1990s and with the Asian crisis, the growth in domestic demand and in exports slowed.

In 2001, FDI inflows constituted over 10% of gross fixed capital formation, 29% of industrial output was produced by FIEs and half of China's exports were also by FIEs (Zhang, 2006). The formal entry in December 11 into WTO is considered the most recent phase of trade policy reform in China, when the clock running on a series of liberalization commitments started (Naughton, 2007). Many measures towards trade liberalization were taken in the 1990s as part of WTO accession process, in which China agreed to conditions that were much more rigid than the terms under other developing countries had acceded and in certain points surpass the commitments taken by more advanced countries (Branstetter and Lardy, 2006). FDI inflows rose substantially, reaching \$108 billion in 2009 - a year during which world FDI flows had declined by some 50 percent in the wake of the financial crisis and recession (Sauvant, 2011) and by 2011 China had accumulated an inward FDI stock of US\$ 711 billion, well ahead of other large developing and transition economies (Davies, 2012).

As compared to other emerging economies such as India, Russia, Brazil or Mexico, China has led the mass process of international expansion and accumulated foreign direct investment (Casaburi, 2017). Nowadays China is

more keen to let foreign investment focus on areas such as alternative energy, biotechnology, IT, infrastructure (rail, sea and air transport, road construction, etc.). As EIU (2012) warns, new challenges will emerge in terms of the availability of sufficiently skilled labour. The study argues that the next wave of foreign investment will require a strong training component, for which many multinationals have already started to open in-house training centres.

Therefore, China has been the most relevant host country among transitional developing economies when it comes to attract FDI due to its market size, economic growth, availability of labour, infrastructure, and a gradual establishment of a regulatory framework and incentive schemes. From Chinese government's perspective, FDI has been used as a tool to accelerate economic growth and development that has come up to be a successful strategy. Although countries such as Indonesia and Vietnam have started to be cheaper alternatives for foreign investors, even during and after the global economic crisis China has continued to be a popular investment destination.

4.1.1 Sources and inflows

FDI inflows into China come overwhelmingly from developing economies (particularly the Asian newly industrializing economies or NIEs), are highly concentrated in the Chinese east and southeast coastal regions, and are biased toward the manufacturing sector (Chen, 2011).

MNCs that conduct FDI in China can be divided into overseas Chinese group (Hong Kong, Macao, Taiwan) and Western group (U.S., EU, Japan). The first lies on labour-intensive production technology and the second state-of-the-art technology and heavy investment on R&D (Buckley *et al.*, 2002, 2007). FDI from the first group has been much more significant than from the second one. The FDI from the western group also increased but it was more focused on targeting the domestic market (Branstetter and Lardy, 2006). Except in 1997, U.S. has been increasing FDI flows and has become the second largest investor in China since 1998. From 1993 the inflows from the E.U. have been increasing more rapidly. Inflows from Japan are more characterized by ups and

downs due to their complex relationship. Many other regions have become important sources of FDI such as Taiwan and Republic of Korea, U.K. or Germany. Nowadays inward FDI continues to be mainly sourced by Asian economies.

Because of their different motivations they vary in their interactions with the local industry and the spillovers they create (Wang and Zhao, 2008). Overseas Chinese enjoy some access to local knowledge and locally embedded resources that can constitute a serious threat to local firms, while the second group possess transferable proprietary assets that local firms cannot access, but lack the locally embedded resources that local firms enjoy (Chang and Xu, 2008). According to Buckley *et al.* (2007), for productivity spillovers, there is a curvilinear positive relationship with FDI on data for overseas Chinese multinational enterprises in low-technology industries, and linear and positive for Western firms in high-technology sectors.

As a general view, from 1992 to 2008 developing economies accounted for 77.5 percent of the total accumulated FDI inflows into China, while developed economies only 22.5 of the total (Chen, 2011). Hong Kong is the largest investor (41%), followed by Virgin Islands (10%), Taiwan (6%), South Korea (5%), Singapore (4.5%) and ASEAN-4 (1.6%). Among developed economies, Japan (7.5%), and the US (7%) are the largest investors, while the EU-15 accounted for 7% of the accumulated FDI inflows (Chen, 2011).

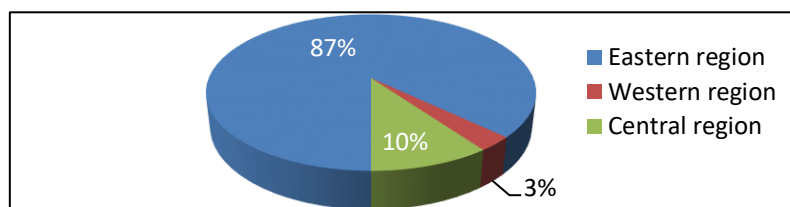
Asian economies have always been the most important trading partners for China and developments in China are likely to weigh on regional markets given the strong trade and linkages with the region. China has become the Asian export platform, a part of the “*Asia factory*” that involves intermediate goods being sourced from and within the region (Batra, 2015). By 2008 China became ASEAN’s 3rd largest trading partner and ASEAN China’s 4th largest and then the CAFTA (China- ASEAN FTA) became effective from January 2010 when tariff barriers were eliminated on 90% of the products (Batra, 2015).

4.1.2 Geographical distribution

Industrial agglomeration tend to form in regions where barriers to entry are very low in terms of capital and technology. Lower cost labour and access to information and technology due to knowledge spillovers generated within clusters have made market development possible (Kang and Ramirez, 2007). As Gao et al. (2017) state, the probability that a province will develop a new industry increases with the number of related industries present in that province (inter-industry learning) but also by the number of neighbouring provinces that are developed in that industry (inter-regional learning).

Due to historical reasons, coastal regions in China provided the opportunity for international trade in order for clusters to grow and develop in an international context. As Ji (2006) shows (Figure 12), most FDI is located in the south and coastal areas despite the efforts of the government to diversify the locations.

Figure 12: FDI to China by location (realized value, 2002)



Source: Ji, 2006

The special economic zones were given unique freedoms to organize their economies on a market basis with floating prices and Beijing blessed these areas with generous financial subsidies in the form of fiscal and foreign exchange revenue contracts, permitting them to retain almost all of the taxes and industrial profits generated by firms in their jurisdiction. In contrast, the three provincial-level cities of Beijing, Shanghai and Tianjin were still required to turn over from 63% to 88% of their revenues. By the mid-1980s even the inland provinces, which had begun as fierce opponents of the open policy, were demanding more access to the open door and by 1988 similar freedoms were extended to the entire coastal zone and to some inland localities (Shirk, 1994).

It is important to consider these special open statuses of these zones to understand the reasons why some localities attracted more foreign capital than others. It is equally true that for local government officials the amount of investment that they attract to the region is an important promotion criterion.

According to Shirk (1994), about 90% of the cumulative investments had gone into the coastal provinces and 40% to Guangdong alone, but inland provinces were actively seeking investors, such as investment from Japan and South Korea in the Northeast and in Shandong Province. The Pearl River Delta in the 1990's and the Yangtze River Delta in recent years were the hot spots of inward FDI, reflecting good infrastructure of those cities for shipments overseas.

Chinese government has long tried to promote the development of inner provinces. In fact, the first wave of the “Go West” policy started with the first five-year plan for 1953-1957 (Deng *et al.*, 2015). Since 1999, China's central government has been implementing the “Western China Development” programme to boost economic development in Western China and Central China. The strategy emphasizes on infrastructure, environment protection, industrial structural readjustment, sciences, education, economic reform, and openness (Chen, 2011). Currently this policy mainly focuses on improving the infrastructure and does not attach importance to creating jobs for workers with different educational backgrounds which makes it difficult for western regions to attract and retain the necessary labour force (Deng *et al.*, 2015). As Tate *et al.* (2014) mention, although companies have started to move toward lower labour costs in inland China, the higher transport cost and pipeline inventory of these regions are offsetting the labour cost benefits. As wages are increasing sharply in China, countries such as Vietnam or even Mexico are attracting the attention of foreign investors.

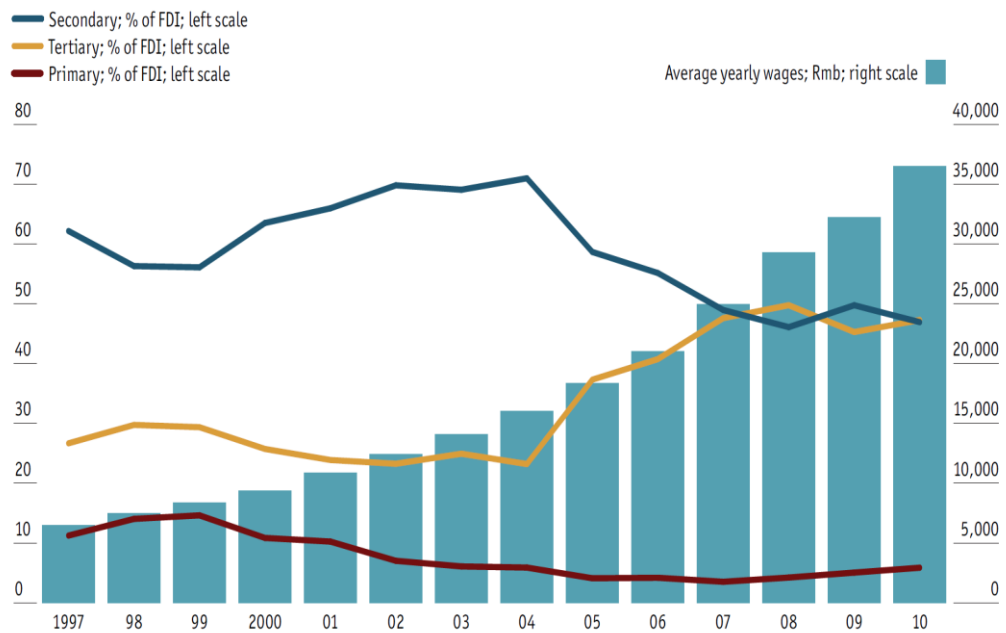
The preferential policy for foreign-capital firms and FDI in these western regions concerns: the advantageous tax rate, such that the income tax rate for a firm is fixed at 15%, from 2001-2010 (compared to 33% in the east and central China); the threshold for registration capital is fixed at 30 million RMB (it is

50RMB in the eastern region); a management term of 40 years for FDI firms (as opposed to 30 years in the east and central China) and exemption of local income tax for FDI projects dealing with construction infrastructures (Mucchielli and Yu, 2011). Furthermore, The Rise of Central China Plan was announced in 2006 aimed to boost six inland provinces (Climate Connect Limited, 2010). According to Mucchielli and Yu (2011) this strategy was proposed in 2004 and aimed at reconstructing the traditional manufacturing industry (especially the heavy industry) in central provinces and developing the high-tech industry through cooperation with local universities and institutes.

Nowadays inward FDI is still concentrated in China's eastern coastal regions, especially in Guangdong (due to its light regulations and proximity to the region's large port in Hong Kong) and Shanghai (due to its strong industrial base and location as a major port at the mouth of the Yangtze River Delta (Davies, 2012). Despite the government's efforts to develop new locations deeper inside mainland China over the past few years, other regions altogether represented less than one-fifth of overseas investment (Shik and Yim, 2009). It is unrealistic to expect that the central and western regions will attract large FDI inflows in the near future and as the eastern regions continue to attract most of the FDI inflows into China, the regional disparities will persist. Foreign MNC investors still prefer agglomerate in the eastern region so economic agglomeration factors seem to be more important than government incentives when selecting a location.

4.1.3 Sectorial distribution

For the past decade, about two-thirds of inward FDI flowed to manufacturing (Shik and Yim, 2008) but now flows now go to the service sector due to the favourable FDI measure introduced in this sector (Zhang, 2006).

Figure 13: Inward FDI by sector in China

Source: EIU, 2012

As we see from the graph (figure 13), in the last few years the share of the secondary sector has rapidly declined and in 2008 FDI into the services sector surpassed the one of manufacturing (EIU, 2012). In 2001, manufacturing accounted for 66% but declined to 47% in 2010. Rising wages and the changing policies have also played their role in reducing the investment in the manufacturing sector, as they have risen by an average of nearly 12% a year in real terms over the past years (EIU, 2012).

4.1.4 Opportunities and challenges

The main attractiveness of China is the large and low-cost labour force, the relatively good infrastructure for exports, the ability to purchase inputs at world prices, China's internal market (Branstetter and Lardy, 2006), its rapid growth and bargaining power (Zhang, 2006). The language culture, family tradition, connections and the friendly FDI policy makes China desirable location for overseas Chinese. The market share targets have been consider influential factor to select the market entry mode (Koch, 2001). In this context and considering that China is moving towards fostering the internal consumption rather than attracting FDI that aims exports, foreign firms may find their

establishment in China a good platform for their intentions to increase their sales in China and other neighbouring countries. Business leaders throughout the West already know that China now offers potentially the most attractive investment environment in the world, serving up a heady mix of consistently high GDP growth rates plus newly opened industry sectors, political stability, fast-developing human resources and exploding consumer wealth (Fernandez and Underwood, 2006). According to Zhang and Van Den Bulcke (1996) high rate of gross domestic savings and investment rates, balanced fiscal accounts, equal income distribution, cheap access to health and education contributed to the “location” advantages created by the Chinese Government. These comparative advantages allow the firms participating in FDI to make higher profit margins in China than in many other countries.

China, not only due to the increase of foreign direct investment and its net trade surplus but also because its high domestic savings rate is a nation with enormous capital flows that then uses to invest in foreign financial assets such as U.S. Treasury bonds and debt instruments. It is considered that China has a favourable regime for foreign investors due to the moderate taxes, investment protection agreements in place with most countries or the legal provisions in place (Naughton, 2007). However, as this author argues, while in most other East Asian countries FDI projects are approved by a single investment approval board, in China, by contrast, approvals can be granted by literally hundreds of local investment boards.

In practice, a decentralized regime often favours the foreign investor as they can play localities off against each other in search of a favourable package (through lower taxes, concessionary terms on land-rental and utility rates, etc.) (Naughton, 2007). According to Naughton, this could also create difficulties for foreign investors as to manage the complex relationships between different authorities, whose services varies enormously due to the corruption, lack of training or lack of transparency. According to Fredendall *et al.* (2016) both the managers (CEOs of BASF and GE) and researchers argue that China’s government system, policies and infrastructure support local protectionism.

In China's transitional economy, where ongoing institutional transitions are shaping the competition landscape, there are a range of uncertainties that firms need to surpass (Bao *et al.*, 2012). Foreign investors in transitional economies encounter serious operational hazards, business uncertainties and information asymmetry, because the rules of the game are different from those prevailing in developed market economies (He, 2003). Foreign firms continue to have some issues with understanding Chinese regulatory environment, communicating these challenges to their head offices or dealing with IP infringements. Investors are seeing a tightening of regulations and the promulgation of standards that favour or protect Chinese companies. It is considered that national laws and regulations are reasonable but local governments often have no incentive to enforce them and may have powerful incentive to violate them. This happens with the enforcement of intellectual property rights (IPR) for example. Many foreign companies have recognized the risks associated to the lack of intellectual property protection in China (Zhao *et al.*, 2006; Keupp *et al.*, 2009). However, this concern has reduced since China joined the World Trade Organization in 2001.

Hilmersson and Jansson (2012) argue that China, being a country with high institutional distance and instability creates an uncertainty that firms compensate through business network knowledge, demonstrating the importance of insidership. In the same line, Zhao *et al.* (2014) found that MNCs' social adaptation activities in China have significantly positive effects in mitigating public crises while certain aspects of economic adaptation, such as early entry, reliance on local leadership, and speedy expansion of local employees, lead to public crises. The significant interaction effects confirm that MNCs need to follow a balanced approach, paying attention to both economic and social components to avoid public crises and sustain growth in emerging markets.

After more than three decades of growth, the Chinese economy is now facing new challenges. The growing demands of an urban population puts pressure on natural resources and environmental issues, inequalities across and within regions have raised concerns over the future sustainable economic growth and

China's large network of state-owned enterprises distort the balanced development of its economy due to weak corporate governance structures and subsidized inputs (Fan *et al.*, 2013). Zhang (2012) found that foreign companies need to become more proactive in handling government relations to get deals done or expand their businesses in China. McKinsey research by Lane and Pollner (2008) has addressed the issue of growing talent shortages in China and the imbalance between business opportunities and the supply of qualified managers and executives in particular (Iles *et al.*, 2010).

Authors such as Johanson and Vahlne (1977), Ghemawat (2001) or Luo and Shenkar (2011) have examined how the "distance" between the home and host country affects the international expansion of companies. Johanson and Vahlne (1997) argue that psychic distance (differences in language, education, business practices, culture, and industrial development) prevent the flow of information from and to the market. Ghemawat (2001) argue that different types of distance (cultural, administrative and political, geographical, economic) affect differently to companies depending on their industry or products. One of the findings of Luo and Shenkar (2011) is that cultural friction (cultural distance that transforms into a clash) is situation-specific, subject to the influence of parameters such as entry mode (e.g., contract vs. equity; greenfield vs. acquisition), workflow interdependence, breath of local stakeholders, speed and stage of international expansion, and depth of localization.

The survey 2011 that CEIBS has conducted to 246 foreign executives in China measures various aspects of doing business in China, ranging from success factors and challenges to specific functional issues. Among the success factors, having a good strategy, team, price/quality ration, branding, or the flexibility to adapt to local ways and guanxi are the most relevant. The most challenging factors are related to finding and retaining workers, increasing labour costs, or the unclear, changing and inconsistent regulations.

Regarding the conditions that lead to the success in China, Fernandez and Underwood (2006) recap the key points derived on their research interviewing

20 international business leaders working in China. The managers should have, among others, international experience and guanxi building capacities. Although Chinese authorities prefer to deal with top executives, it is crucial to hire nationals with connections and expertise in government relationship building. Other factors include the adaptation of the product and consideration of changes in markets (second and third tier cities), fulfilling the career expectations of workers by compensating and training them, or establishing good communication with the HQ. The same authors interviewed Spanish managers in SMEs and found that managers should be *agile leaders* in China, which involved been effecting in three dimensions: internal environment (keep operations simple, provide training, have personal relations with employees, etc.), external environment (have a long term vision, take care of the brand, consider that China is not homogeneous, etc.), and private life (be entrepreneurial, have capacity of sacrifice, etc.) (Fernandez and Underwood, 2005).

All these elements add some more specific elements to the factors commented on previous sections as they focus on China only and make us understand the pressures and challenges that the managers working on the subsidiaries need to face. It can be said that elements such as empowerment, flexibility, adaptability, reaction capacity, openness or expertise in relationship- building and connections are considered essential to understand management in China.

4.2 Agglomeration and social capital in China

Porter (1998b) argues that it is not only essential to know how clusters form but *where* they form also matters. The renewed interest in clustering came from the experience of the so-called “Third Italy” in the late 1970s, from which it emerged an international debate around clusters. Chen *et al.*, (2007) agrees with Parrilli (2004) when considering that policy-makers and development agencies in developing countries should not compare their SME clusters with the top clusters (the Third Italy or Silicon Valley) without taking into account the specific social, economic and policy features and the several phases they

have passed thought. Many scholars have written about the relation between clusters in developing countries (Van Dijk and Sverrisson, 2003; Tsuji and Kuchiki, 2005; Parrilli ,2004) and more specifically in China (Zhang *et al.*, 2009). Other Asian EPZs were established in economies that were basically market economies whereas Chinese SEZs were created in a planned, bureaucratic economic system and were often served as “laboratories” for experiments with economic reforms to attract FDI and technology as well as test the new policies for a market-oriented economy.

Development zones are not a Chinese creation, but China in particular has found tremendous success in utilizing them as an economic tool (Scheltema *et al.*, 2013) for economic development an attraction of FDI. In China, while market forces are usually responsible for the creation of industrial clusters, the government’s role and support is essential for their setting up. After decades of development, some clusters began to grow out from SEZs ³ and in recent years some cities began to set up cluster-type industrial parks or “specialized industrial parks” such as the liquid crystal display (LCD) high-tech park in Kunshan (Zeng, 2010). According to Zeng, generally speaking, Chinese SEZs operate in more technology and capital-intensive sectors and enjoy greater government support, more FDI and stronger links to the global market. On the other hand, clusters (with exceptions deriving from SEZs) usually operate in the low-technology and labour-intensive sectors with less government support. The use of development zones in China has allowed foreign companies bring components to China without having to pay import duties. Then, adding locally sourced components, assembling them at local labour costs and warehouse them at duty free they could export them or sell them in the domestic market Scheltema *et al.* (2013).

In line with Parrilli (2004) it is quite important to consider the different development stages of the clusters when it comes to comparisons between clusters in developed and developing countries. Li and Fung research centre

³ For example the information and communication technology clusters in Zhongguancun (Beijing) and Shenzhen, the electronics and biotech clusters in Pudong (Shanghai), the software cluster in Dalian, and the optoelectronics cluster in Wuhan

(2006) summarized some common features of the life cycle of the industrial clusters in China in four stages according to the number of firms involved, the interaction or interdependence level among them and the competitive edge in the cluster. The birth stage has one to two enterprises as pioneers that act independently. The growth stage is when the success of the cluster leads to high growth rates and builds a critical mass of firms. The stable stage is a fully developed cluster with a critical mass of competitive factors, including professionals, trained workforce, suppliers, buyers, etc. and the decline stage comes due to internal and external factors, where the location or workforce becomes too expensive or when demand shifts.

They argue that the majority of enterprises in the industrial clusters are privately owned SMEs and some industries are more likely to form clusters than others are (such as industries with a high number of process innovations or cooperation with suppliers, customers and other industries). There is a high degree of division of labour and specialization (sometimes creating the integration of many firms to form a complete production line in the cluster) and it is common to find commodity exchange markets in or near the clusters as trading and information platforms, marketing or distribution centres for the products. They also argue that in many cases, is due to key enterprises that industrial clusters are created (Nantou in Zhongshan for example has attracted many home appliance manufacturers to the area).

China's 13th five year plan for 2016-2020 suggests that city clusters will play a crucial role in urbanization and regional development, having different implications for companies' location strategy. According to Hong *et al.* (2015) in China cities are increasingly functioning as clusters and for companies seeking for opportunities these clusters may allow them to leverage their business from smaller number of locations in different clusters, thereby achieving synergies among these cities and reducing operational cost.

4.2.1 Clustering in China

The agglomeration that has been taking place in East Asia since the 1990s is directly related to the current phenomena of industrial clustering policy (Kuchiki and Tsuji, 2008) and agglomerations in areas such as the EPZ in Kaousing (Taiwan, 1965), the FTZ in Penang (Malaysia, 1971), the EPZ at Tan Tuan near Ho Chi Minh (Vietnam, 1993) or industrial Parks near Shanghai (Tsuji and Kuchiki, 2005). Historically industrial clustering has played a critical role in the industrial development in East Asia, notably in Japan and Taiwan. In China clustering has developed very fast and it is often regarded as the most productive strategy for regional growth (Sonobe and Otsuka, 2006).

Clustering in China did not attract the attention of many academics until the late 1990s despite it has been developing since the market reformation in 1979 (Kang and Ramirez, 2007). The historical comparison between 1980, 1985 and 1995 suggests that China's manufacturing industries have become more geographically concentrated following the economic reform (Wen, 2004). Nowadays the literature is also emphasizing the role of industrial concentration in the context of sustainable development and environmental issues. According to He *et al.* (2007), most studies have been focused on the advantages or agglomeration economies. However, the role of institutional changes resulting from decentralization and globalization is often forgotten. Privatization of SOEs not only was effective but it improved the performance and competitive advantage of firms. The formation of clusters has been considered an important outcome of this gradual privatization process. We can consider the case of China quite unique as the cluster formation is booming in many areas after the planned economy restrained it. The country-specific factors that shape the business environment of China could make us understand better the industrial location and agglomeration in China.

Forces driving industrial location in China might be different from those in developed countries due to its transitional and developing economy. According to Wei (2000, in He *et al.*, 2007), the elements of the Chinese economic transition that influenced the geographic concentration of the industries were

characterized by a triple process of decentralization (creates inter-regional competition and dispersion), marketization (fosters comparative advantage, regional integration and concentration) and globalization (concentration in the coastal regions due to the closeness to international markets).

In general, we can see that industrial concentration in the coast came due to the closeness to international markets and foreign invested firms are more concentrated than others, market forces also facilitate geographical concentration and on the other hand decentralization and local protectionism can act as a centrifugal force of dispersion. Concentration will increase as a result of economic globalization and market liberalization, but will be counterbalanced by non-tariff barriers from the local governments due to the economic decentralization (He *et al.*, 2007).

Collectively called industrial parks, these parks in China – economic and technological development zones (ETDZ) , high-tech development zones (HTDZ), free trade zones (FTZ), and export processing zones (EPZ)- promise a developed infrastructure, a relatively efficient administration and above all, attractive business terms. As appointed before, the term SEZ often embraces all these areas. Clusters and SEZs are also linked in China. Li and Fung research centre (2006) classify clusters in China into self-augmented cluster, export-oriented clusters, high-tech industrial clusters and resource-driven clusters.

Certain parks could be located within other industrial parks such as the Export Processing Zones (EPZs) that are under the Economic and Technological Development Zones (ETDZs). Likewise, Software Development Parks (SDPs) and University Science Parks (USPs) are usually located within a High-tech Industrial Development Zone or High-tech Park (HIDZ or HTP). Why does Chinese policy have this proclivity for special zones? As Naughton (2007) argues, this preference is consistent with the dualistic system of the trading regime, the EP or export-promotion trade that responded to the open regulations and the slower OT or ordinary trade system. The investment in China's development zones can be described by 7 stages that include the selection of the location, the certificate of approval and business licence, the

seals or the enterprise legal person code, and the opening of bank account and tax registration (Scheltema et al., 2013).

Industrial parks in China are of varying sizes, levels, activities, and stages of development. By 2004, there were nearly 7,000 industrial parks in China but China stepped up its efforts to clean up unqualified industrial parks and by 2006, the number had been reduced to 1,568, among which 222 are state-level zones. The total planned area had been reduced from 38,600 sq. kilometres to 9,900 sq. kilometres (74.4% less) (Xiaohu, 2004).

Most of the zones and clusters are benefited with preferential policies regarding taxes. The tax benefits include year-free periods and exemptions in the Corporate Income tax rate, exemptions in the Custom Duty and VAT on certain products and materials, exemptions on licenses for enterprises in the category of encouraged industries, VAT refunds on finished products using domestic raw materials, etc.

If we specifically look at country-of-origin FDI in China, we can find different examples. For instance, there are Italian firms in Baoying (Jiangsu), German firms in Taicang (Jiangsu), Taiwanese firms in Kunshan (Jiangsu), Swiss firms in Shanghai (Shanghai), African business in Guangzhou (Guangdong), or Japanese in Dalian (Liaoning). Similarly, Chinese firms also co-locate their business activity out of PRC's borders such as Chinese from Wenzhou (Zhejiang) in Praia, Cape Verde (Haugen and Carling, 2005) or Chinese in Nordrhein-Westfalen in Germany (Shen, 2015).

According to Zeng (2011), SEZs confer two main types of benefits that explain their popularity: "direct" economic benefits such as employment generation and foreign exchange earnings, and the more elusive "indirect" economic benefits such as skill upgrading or technology transfer. Other benefits that attract investors to locate in developing zones are the following (Scheltema *et al.*, 2013):

- Preferential policies: lowered land costs, tax awards and exemptions, customs clearance, ease of access to domestic markets, etc.

- Support and participation of government: quick to respond to changes, provide accounting, legal marketing and consulting services, better infrastructures, etc.
- Autonomy
- Resource availability: zones that are specialized in certain industries/ sectors have access to specific resources and expertise
- Technology, learning and innovation: as hubs for creativity and innovation, with government incentives, presence of highly skilled labour, etc.

The companies need to consider different factors to choose one zone or another. According to Scheltema *et al.* (2013) choosing a zone will depend on: distance to ports, location relative to suppliers, transportation network scope/quality, future expansion/ repair plans, cost of land/rent, services offered, zone management / administration, labour availability and local economy/ government. Then the companies should narrow down the list of zones. Typically, the due diligence requires an assessment of the site itself and the legal and tax implications of locating there (Scheltema *et al.*, 2013). In any location of interest, the firms can seek out companies with a similar background (in terms of country or region of origin and line of business) and gauge how their experience has been like (Scheltema *et al.*, 2013). This supports our argument about the role that the country-of-origin network plays when selecting a location abroad. In fact, Gonzalez-Loureiro *et al.* (2015) reviewed different research done on clusters, industrial districts and agglomeration from 1957 to 2015 and proposed not only the inclusion of human and emotional dimensions on this type of research but call for research on Asia and Asia-Pacific.

4.2.2 Geography and sectors

China's rapid economic growth has attracted the attention of foreign investors all over the world, and the flow of foreign investment into China has had much to do with the country's establishment of development zones and industrial parks. Industrial location in the People's Republic of China is unequally

distributed. Although China has achieved historical GDP growth this is mainly observed in the coastal area, not so much in the inland area. As Kimura (2007) argues, the growth rate does not represent the whole of China's industry, which shows the spatial unevenness of economic activities. As Kim (2005) says, the policy-led different types of development zones in China attracting FDI have become more focused in networking and clustering within city economies where local firms and city's industrial base enable the foreign firms to draw upon a common infrastructure, pool of labour or customers, developing mutually beneficial inter-firm networks.

Certainly, areas that attract more foreign investment are the main destinations for capital inflows and the areas that are developing faster in China. However, the development of industrial parks in China has come a long way. The key experiences of China's SEZs and industrial clusters could be best summarized as: gradualism with experimental approach; strong commitment; and an active facilitating state with strong pragmatism (Zeng, 2010).

From the late 1980s and early 1990s the Chinese economy started to shift to more skilled labour-intensive, capital-intensive and technology-intensive industries and shifted from the south to the lower Yangtze River region, such as southern Jiangsu (Sonobe and Otsuka, 2006). The development of SMEs clusters in the eastern coastal region, particularly in the Yangtze River Delta (YRD), the Pearl River Delta (PRD) and the Bohai-rim region have developed a broad range of industrial concentration in various industries and followed three paths of economic growth, Wenzhou model (Zhejiang), Pearl river model (Guangdong) and the Sunan model (Jiangsu), where Kunshan is placed. Kunshan has emerged as the new landmark of Taiwan investment since the late 1990s and is regarded as the miniature of Taipei city. YRD is considered to be attractive because of the supportive local governments, rule-based investment environment, good customs service that helps exports, the presence of banks and well-established supply chain and the development of Shanghai (Zhao and Zhang, 2007).

He *et al.* (2007) found that industries with higher transportation costs are more dispersed; and resource-based industries (except metal consuming companies) are less agglomerated. However, it is difficult to predict what types of persons initiate what type of industries and where. Fan and Scott (2003), who studied the positive relationship between agglomeration and economic performance, found that labour-intensive industries were more spatially concentrated. Sonobe and Otsuka (2006) found that light industries or products that are technically easy to produce (garments, simple machinery, etc.) tend to be initiated by merchants and often locate in towns with low wages and suburban areas with reasonable proximity to a large city and a tradition of commerce (such as in Jili, Wenzhou or Changzhou). Industrial clusters for industries with higher quality and technology tend to be formed in the suburbs of large cities to benefit from urbanization economies due to the proximity of skilled engineers and intermediate inputs.

Competition among different provinces, cities, and regions over land prices, taxes, rebates, and cash bonuses, as well as competition in the same region, is rather fierce. The homogenization or overlaps of industrial layout and construction and repetitive investments are becoming a key problem for many industrial parks across China.

4.2.3 Social capital in China

Luo (2002) points on the need of networking and commitment as part of an offensive strategy to mitigate the liabilities in emerging markets (which includes implicit mutual obligations, assurances and understanding). However, networking in developing countries is not necessarily like the inter-firm networking in the West, as the reciprocity is often implicit, without time specifications and only socially binding. He considers networking to nurture cultural adaptation, reduce institutional uncertainty, foster strategic flexibility and facilitate information exchange. Zhao and Hsu (2007) analysed Taiwanese SMEs investing in China and found that social capital embedded in social ties plays an important role in market entry decisions, particularly as a unique asset for SMEs that lack size advantages and means to enter foreign markets early.

Chen and Chen (1998) studied firms operating in China and Taiwan and reported that network contacts could assist small sized companies to overcome liabilities of smallness such as lack of international experience or resources for host country market research. Zhou *et al.* (2007) found that international business managers should consider social networks as an efficient means of helping internationally oriented SMEs to go international more rapidly and profitably.

Consistent with this view, Miller *et al.* (2008)'s study of Latin American banks located in the US show that ethnic identity is a valuable and costly-to-imitate resource that help the firms achieve competitive parity in other markets and thus positively influences their chances of survival. Related to this aspect of ethnicity, Jean *et al.* (2011) found that ethnic ties of top managers do not help to improve firms' performance in China but they facilitate firm FDI location choice.

In the context of China, the LOO is related to creating and developing *guanxi* network. Park and Luo (2001: 455) define "Guanxi" as:

"[...] a cultural characteristic that has strong implications for interpersonal and inter-organizational dynamics in Chinese society. It refers to the concept of drawing on a web of connections to secure favours in personal and organizational relations. Chinese people and organizations cultivate guanxi energetically, subtly, and imaginatively, which governs their attitudes toward long-term social and personal relationships. Guanxi is an intricate and pervasive relational network that contains implicit mutual obligations, assurances, and understanding. It has been pervasive for centuries in every aspect of Chinese social and organizational activities. Modern Chinese society still operates within the realm of these countless social and business guanxi networks. It is thus critical for businesses in China, whether foreign or local, to understand and properly utilize guanxi in order to gain an edge over competitors. The practice of guanxi stems from Confucianism, which fostered the broad cultural aspects of collectivism manifested in the importance of networks of interpersonal relations".

Chinese culture is collectivist, which may imply that opportunistic propensity will be higher for outgroup than in-group members (Chen *et al.*, 2002).

Guanxi refers to “*interpersonal relationships or connections*” and can be applied “*not only to kinship and friendship relationships but also to social connections*” (Lee and Dawes 2005: 29). Guanxi has been regarded as a neutral concept and substitutes for formal institutional support (Millington *et al.*, 2006; Xin and Pearce 1996). Based on a study on foreign firms in China Li *et al.* (2009) found that the information embedded in managerial social ties can reduce the liability of foreignness and uncertainty in the host market and that foreign firms benefit from their use of business ties, but their profitability suffers when they rely increasingly on the heavy use of political ties. Xin and Pearce (1996) analysed interview data from China and found that for private company executives business connections were more important, they depended more on connections for protection, had more government connections, gave more unreciprocated gifts and trusted their connections more. These authors suggest that people with better ethnic or social networks can have more effective business operations.

Guanxi is one of the key success factors and therefore an essential basis for successful business in China (Abramson and Ai, 1999), especially in the initial stages (Yeung and Tung, 1996). Johanson and Vahlne (2009) have proposed that the liabilities could be overcome through a learning process after which building of trust and commitment can begin. Joint ventures have often been seen as a means for foreign firms to deal with guanxi (Gamble, 2007) but other authors such as Ahlstrom *et al.* (2000) suggest that firms can also adopt “*co-opting*” strategy, which has been recommended in the case of wholly-owned firms (Pearce and Robinson, 2000). We should consider whether the park’s structure and governance function as guanxi developer will help the firms overcoming the liability of outsidership.

Within China context, guanxi is social capital because it involves exchanges of social obligations and determines one’s face in society (Park and Luo, 2001). According to Su *et al.* (2009) guanxi can be construed as one type of social

capital that connects key people across various social groups and encourages them to pool resources. According to these authors, social capital in China may be categorized into two types: business partner (horizontal *guanxi* with various levels of managerial staff) or governing agency (vertical *guanxi* with various levels of governmental, regulatory, and/ or supporting organizational officials). More recent studies have gone beyond the single-dimensional concept of *guanxi* by exploring the individual relational constructs (e.g., *renqing*, *ganqing*, and *xinren* or *xinyong*) that measure *guanxi* (Wang, 2007; Wang *et al.* 2008; Yen *et al.*, 2011).

Briefly described, *ganqing* is related to “feelings” (affections, sentiment and emotional understanding), *renqing* to sensibility, empathy, reciprocity and human kindness (humanized obligation such as gift or favour), and *xinren* relates to trust, reliance, confidence and reliability (Yen *et al.*, 2011). Su *et al.* (2009) describe *guanxi* orientation as the extent to which people willingly recognize obligations (to offer *renqing*), harmony (to save other’s *mianzi*), and reciprocation (to repay *renqing* to maintain long-term cooperation) in their daily socialization. Su *et al.* (2007) differentiate between affective (close relationships due to affective bonds, permanent and stable), normative (tied through prescriptive relationships as being friends or relatives) and instrumental (opposite to affective, it serves as a means to attain goals, unstable and temporary).

4.3 Research setting

In this section we will present the specific geographic characteristics of the place where Mondragon Kunshan Industrial park is located, this is, Qiandengg Township in Kunshan, Jiangsu province, Yantze River Delta, China.

4.3.1 Yangtze River Delta

In 1990, the Chinese government made the determination to speed up the growth of Pudong at Shanghai to build an international centre of economy, finance and trade, followed by an economic boom in the Changjiang Delta and other areas along the Changjiang River by the economic radiation effect. As the largest city in China and metropolis in the Far East, Shanghai is also an important comprehensive industrial and research base in China, playing a vital role even in the global economy. Located at the two wings of the delta are Jiangsu and Zhejiang Provinces, which are undergoing rapid growth in economy, technology and culture, and operate a strict opening-up policy to accelerate the process towards export-oriented economies. All these render the cities in the area - such as Ningbo, Nanjing, Suzhou, Hangzhou etc. - more and more attractive to foreign investment (ICGOZPG, 2006).

According to a survey, among the top 500 companies rated by FORTUNE, over 400 companies had established their branches or headquarters in the YRD by 2002, about 300 in Shanghai, over 150 in Jiangsu and about 50 in Zhejiang (Xu, 2003, cited by Zhao and Zhang, 2007). YRD covers an area of 211 thousand sq. kilometres, embracing Shanghai and 16 medium-sized cities in Jiangsu and Zhejiang. YRD is considered to be attractive because of the supportive local governments, rule-based investment environment, good customs service that helps exports, the presence of banks and well established supply chain and the development of Shanghai itself (Zhao and Zhang, 2007) but is one region that suffers a power shortage (Xiaohu, 2004). From 1991 to 2006 the yearly production output in the area increased by 13.9 % (3.8 % higher than the national average). It has attracted about 100 industrial parks and contracted overseas investment exceeded 160 billion USD (ACCEDZ, 2009). The Yangtze River Delta is extremely strong in economy, and ranks as the most important manufacturing base for textile, mechanic, electronic, steel, iron, and petrochemical products. The manufacturing industry has been advanced with a great capacity and with competitive quality and price (ICGOZPG, 2006).

4.3.2 Jiangsu Province

In recent years, the Province of Jiangsu has become an important focus for the Basque Country: of the 130 Basque businesses established in China, a third is located in Jiangsu (Irekia, 2010). The park that will be analysed in the research are located in Jiangsu province, which, according to Huang (2008), ranks as no. 1 in per capital gross domestic product in the country and it has everything on its side, foreign direct investment, high-tech industrial parks with heavy support from another FDI-heavy economy (Singapore), bank loans, and massive investments.

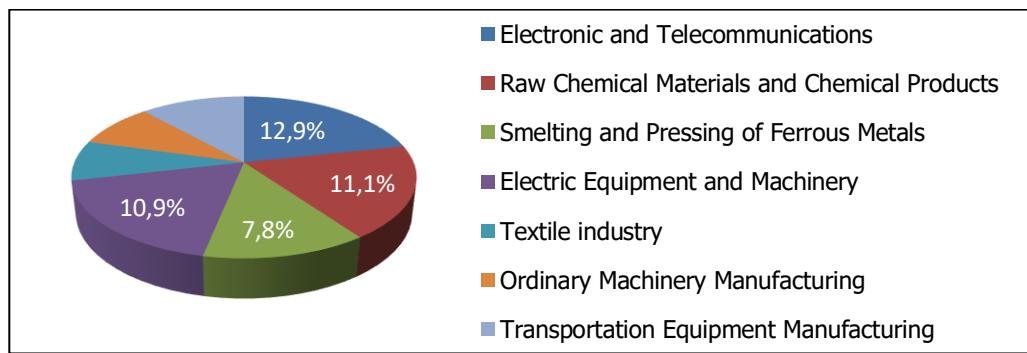
In 2003, Jiangsu displaced Guangdong as the no.1 FDI recipient in China. Although there is no official definition, Jiangsu is divided into “Su Nan” (or southern Jiangsu) and “Su Bei” (Northern Jiangsu) and is known for its “SuNan Model”, which had developed many booming collective, or township, enterprises in the 1980s and 1990s. Township enterprises started to prosper as a result of reforms carried out by the government. The government made appeals to rural farmers and encouraged the remaining workforce to set up enterprises, which would be funded by the government. These enterprises are called “township enterprises”. Until the mid-1990s, these companies were growing fast and contributed largely to Jiangsu’s economy.

Today, however, township enterprises are slowly losing their importance in Jiangsu’s economy as industrial parks bring much foreign investment. The provincial government administers 13 prefecture-level cities and 64 county-level units. South Jiangsu, owing to its proximity to Shanghai, has benefit from the spillover effects of the latter’s development. The Su-Xi-Chang Area-comprising Suzhou, Wuxi and Changzhou, which is adjacent to Shanghai-contributes the biggest shares to Jiangsu’s economy (Xiaohu, 2004). GDP of the southern Jiangsu area (Suzhou, Wuxi, Changzhou, Nanjing and Zhenjiang) accounted for 61.5% of Jiangsu’s total GDP in 2013 (HKTDC, 2014).

The pillar industries in Jiangsu are electronics, telecommunications, chemicals, machinery, equipment, textiles, and metallurgy. In recent years, technology-

intensive industry and capital-intensive industries (such as electronic and telecommunications etc.) have been developing fast. Jiangsu is moving towards the development of new and high technology products. Jiangsu is now an important IT manufacturing base. Many Taiwanese IT manufacturers are attracted to invest in Kunshan and Wujiang. From 2008 to 2013 electronics decreased 18%, smelting and pressing of ferrous metals 23% and textile 38% but electric equipment and machinery and transportation equipment increased 28% and 25% respectively (*Jiangsu Statistical Yearbook 2009 and 2014 by HKTDC, 2010 and HKTDC, 2014*).

Figure 14: Gross output Share of Leading Industry Groups (2013)



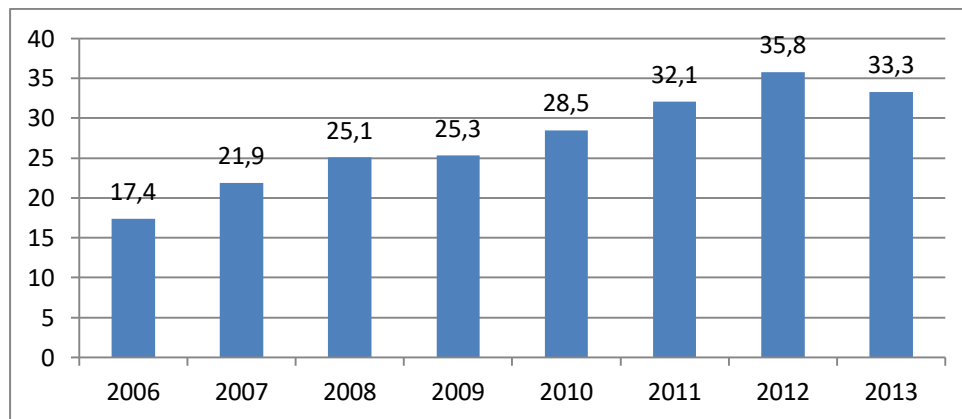
Source: *Jiangsu Statistical Yearbook 2014 by HKTDC, 2014*

Jiangsu's industries are more and more foreign trade oriented and many electronic, mechanical, new and high technology products, automatic data processing machines and accessories or garments and clothing accessories are exported, mainly to US, Japan and Hong Kong. For the import side, major imports included electronic and mechanical products, high technology products, integrated circuit and liquid crystal display panel, mainly from South Korea, Taiwan and Japan (HKTDC, 2014).

As we can see in figure 15, Jiangsu is a popular province that has been increasingly attracting foreign investment. Foreign investments in Jiangsu are mainly engaged in the manufacturing sector, particularly in telecommunication equipment, computer, machinery, chemical products and textiles. In 2013, utilized foreign direct investment (FDI) in the manufacturing sector amounted to US\$17.4 billion, accounting for 52.4% of the total FDI, a drop from 62.4% from 2012 but a relevant increase if we consider that in 2001 this share was

only 6.5% (HKTDC, 2010, 2014). However, service sector is attracting an increasing share of FDI. In 2013, FDI in the service sector accounted for about 24.4% of the total, while this share was only 6.5% in 2001. Real estates accounted for about 20% of the utilized FDI in 2013 (HKTDC, 2014).

Figure 15: Utilized FDI of Jiangsu (USD billion)



Sources: Jiangsu Statistical yearbook 2014, Jiangsu Statistical Bureau in HKTDC, 2014

According to statistics from 2007 (Jiangsu Department of Science and Technology, by JITT,2010) Jiangsu has a complete set of science and technology (S&T) platform as it has 35 national and 209 provincial key labs and engineering research centres, 5 national high-tech industrial development zones, 54 national high-tech industrial clusters and 18 national high-tech incubators. It also enjoys good indicators of basic science and research as annual increase of patents application is above 60% and patents application ranking first in China in 2008.

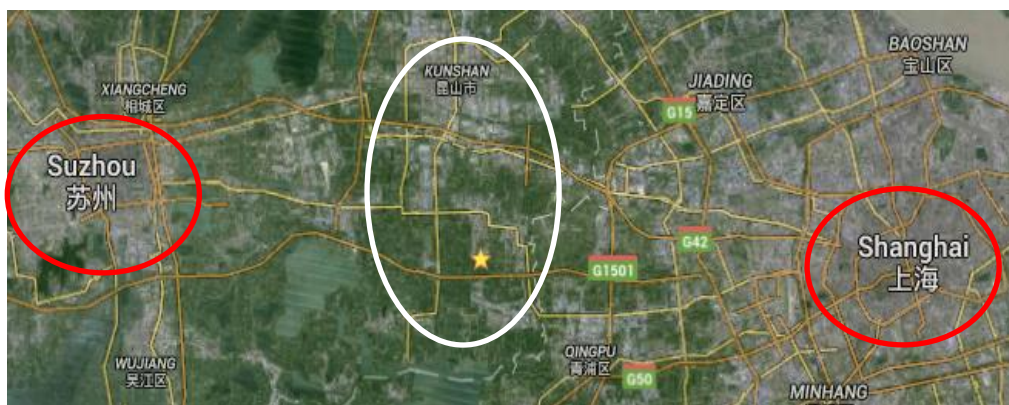
Regarding international cooperation in S&T Jiangsu has relationships with more than 70 countries and regions in the world and over 100 S&T cooperation projects. It can be considered that the investment in S&T is quite considerable as R&D fund accounts 43 billion RMB (1.7% of provincial GDP) and the S&T funds account 2.7% of the provincial financial government budget's expenditure. According to Xiaohu (2004) 80% of the industrial parks and zones in Jiangsu are located in the southern part of the province.

According to current data from China Knowledge (2010) the following zones are also present in Jiangsu: Kunshan Export Processing Zone, Nanchang National High-tech Industrial Development Zone, Nanchang ETDZ, Wuxi Export Processing Zone, Jiangsu Wuzhong Export Processing Zone, Nanjing National Cross-strait Science and Technology Industrial Park, Nanjing EPZ, Wujiang EPZ, Nantong EPZ, Yangzhou EPZ (B), Changshu EPZ, and Zhenjiang EPZ.

4.3.3 Kunshan city

This section will include information about the area where the empirical work will take place, Kunshan city and the special economic zones located there.

Figure 16. Location of Kunshan



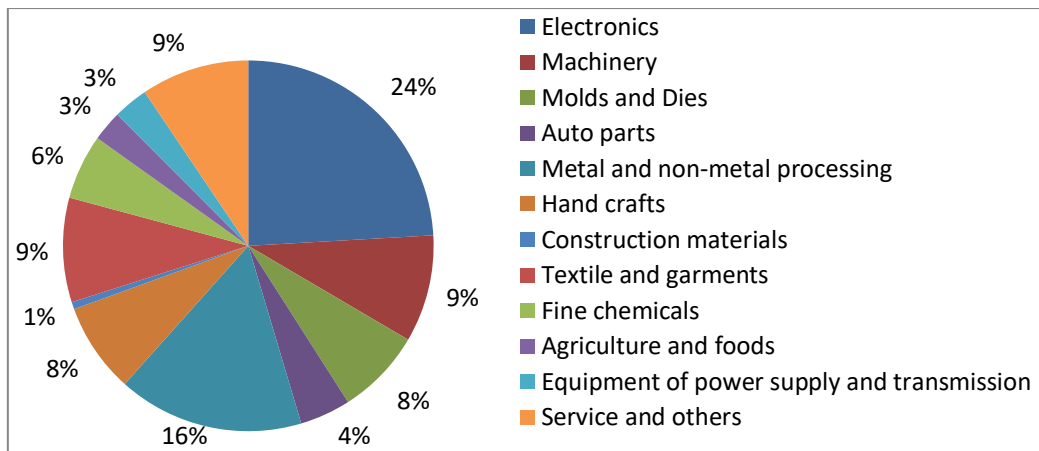
Source: own elaboration from google maps

Kunshan, situated in the YRD is a city of 927,68 sq. km with a population of 1.92 million under the jurisdiction of Suzhou (HKTDC, 2012). It is bordered by Wujiang in the southwest, Taicang in the northeast and Changshu in the north while Jiading Districts and Qingpu District in Shanghai are bordering in the southeast. It takes only half an hour to reach Suzhou or Shanghai. Kunshan has won a lot of awards and titles in different fields, it was entitled “No.1 of China Top 100 county-level cities” in 2005 and 2006, “China Top 10 Charming City”, “Outstanding Tourism City in China”, “the Nation’s Cleanest City”, “Model City in Environment Protection”, “Nation’s Forest City”, and so on (AHK, unknown). Kunshan is called the tenth district of Shanghai because the rapid development of the city is largely dependent on the

metropolis (China Knowledge, 2010). In 2008 Kunshan’s GDP per capita exceeded RMB 120,882, surpassing that of Shanghai (China Knowledge, 2010). In 2011, Kunshan’s GDP grew 15.8% year on year to RMB 243,23 billion (HKTDZ, 2012).

Kunshan industrial pillar industries are ICT, IT, software, electronic information, fine chemicals, precision machinery (Lai et al, 2005). In 2008, gross industrial output from information technology, machinery, refined chemicals and plastic produc manufacturing added up to RMB 377.3 billion, accounting for over 75% of the city’s total. Is considered to be one of the most important information technology industrial bases with companies such as Compla, Acer, Foxconn and Altek established there. As we can see in figure 17, electronics and metal and non-metal processing accounted the highest foreign investment in Kunshan.

Figure 17: Industrial structure of foreign investment in Kunshan City



Source: Kunshan Bureau of foreign Cooperation and Trade (2008-12-31) by KGIP, 2010

According to Sonobe and Otsuka (2006) the formation of clusters in the suburbs of large cities is a common feature in Japan, Taiwan and China and they point out the case of Kunshan in China as an example in which the cluster borders on Shanghai. Kunshan is characterised as a big recipient of foreign investment, but specially from Taiwan, accounting for nearly one quarter of that of the Jiangsu Province and one tenth of that for the whole country (Lai *et al.*, 2005). According to China Knowledge (2010) Taiwan, U.S. and Japan are

the major foreign trade partners. In fact, the city is known as “small Taipei” as it has about 3000 Taiwanese firms. Some authors such as Chen (2008) and Lai et al (2005) identify various features that make Kunshan attractive for businesses, especially for relocation of clusters from Taiwan.

There are two state-level development zones in Kunshan; namely Kunshan Economic and Technological Development Zone and Kunshan Export Processing Zone. Kunshan Mondragon is in Shanghai-Bordering Kunshan Industrial Zone, near Kunshan Economic and Technological Development Zone (KETDZ) but not inside it. However, these zones are quite indicative to describe the industrial surrounding of our case study, Mondragon Kunshan Industrial Park. According to categories described by 2010 CK Rating, KETDZ ranks 4th in terms of value-added industrial output with 69,3 RMB billion (China Knowledge, 2010), even in a higher position of several free trade zones or export processing zones in Shanghai. If we look at export value then KETDZ ranks 1st with 33,1 USD billion and KEPZ 4th with 24,4 USD billion. Even in Kunshan the costs are also increasing, which, along with other reasons, has recently made some of the companies such as Orbea and Fagor Industrial close down their operations in Kunshan (Aldama, 2015), according to China Knowledge (2010) Kunshan is not among the top 10 cities with higher land costs (minimum transfer price of industrial land) in China.

4.4 Conclusions

Industrial agglomeration has proven to be vital to the economic growth of not only developed countries but also to less-developed ones in East Asia, including China, where the flow of foreign investment has much to do with the establishment of development zones and industrial parks. While China’s rapid rise has become a hot topic for development debate among policy makers, business people, and scholars all over the world, the numerous special economic zones (SEZs) and industrial clusters that have sprung up since the reforms are undoubtedly two important engines for driving the country’s growth (Zeng, 2010). Considered in 1984 as necessary to enter the market

economy and start attracting foreign funds, China has developed since then a growing number of industrial and development parks in strategic areas (Shanghai, Shenzhen, Qingdao...) and counts today more than 6000 of them.

Despite its remarkable economic growth, China has to face challenges related to demography, inequality, environmental concerns, energy, external debt, healthcare or corruption. In recent years, China's growth rate has fallen from the historic double-digit rate to about 6-7% giving rise to a period where a slower but more sustainable development is the objective. Now those policies look for an industrial and technological upgrading and the entrepreneurial innovation that support the country's transformation. China's expansion is a distinct event in economic history from which other countries will learn. Although the location patterns may shift, China will continue to be an attractive country for foreign investors.

This implies a constant search to improve the management of these areas and of the practises to attract FDI. Industrial clusters gained in prominence over the past two decades and we find a clear example of this in China, where the proliferation of such zones put much effort to attract foreign investment. The location and agglomeration logic could be seen as a phenomenon that could bring companies, society and private and public institutions such as universities or research centres together to reinforce cooperation and internationalization so as to be more competitive and survive in the current turbulent periods.

With its unique 5,000 years old culture and traditional administrative bureaucracy, many conflicts arise between Chinese and foreign cultures as foreign companies are used to other values and business norms that are not accepted in China. In developing countries and more specifically in China, executives often have to perform many functions that are otherwise played by market mechanisms in developed market economies (obtaining market information, interpreting regulations, enforcing contracts, and settling payments). In an environment where formal institutional constraints (such as legal frameworks and industrial and intellectual property rights system) are

underdeveloped or under-enforced, managerial networking plays an important role in facilitating economic exchanges (Luo, 2003).

As we have seen in this chapter, China is an economy of interest for foreign firms, increasingly seen as a market and not that much as a production hub. However, firms face many difficulties when doing business there due to the distance (cultural, institutional, geographical etc.) between their host countries and China. As a result of this and the convenient business conditions offered in some areas, many business agglomerations and clusters that have attracted FDI have been developed.

Independent of their origin, firms in China have unequal results and face different challenges that put the emphasis of the research on the context. Given that country-of-origin clusters are organizational models of international activity that could be “exported” to other destinations, the understanding of the context and the conditions under which they emerge is an important part of the research.

CHAPTER 5: RESEARCH METHODOLOGY

The aim of this chapter is to describe the different analysis and research methods used to study the proposed 3 research questions. As we will explain in this section, this research combines quantitative and qualitative research methods. First, we will introduce the research design and approach. Then the description of the cases and unit of analysis will be introduced. After explaining the process followed for data collection, we will present the treatment and operativization of the variables and the analysis conducted, both to increase the quality of the variables and to analyse the research questions of this study.

5.1 Research design and approach

Research in common parlance refers to a search for knowledge. In short, it is the systematic method of finding solution to a problem. In this section we will look at the research elements that describe the methodology that will be followed to obtain answers for our research questions.

As Bryman and Bell (2011) describe, combined methods incorporate the relationships between macro and micro levels and stages in the research process. Quantitative research is usually used for the investigation of “macro” phenomena, and qualitative research better suits the “micro” ones. It is tempting to think that mixed methods research is superior to research that relies on a single method. Indeed, these reflections are influenced by recent writing concerned with indicators of quality in mixed methods research (Bryman and Bell, 2011).

Qualitative research can play a role in uncovering paradoxes, clarifying controversial results, and developing theoretical frameworks (González-Loureiro *et al.*, 2015). Even if there is a growing recognition of the value of qualitative research in IB, the use of qualitative methods remains low. Several

authors (Birkinshaw *et al.*, 2011, Doz, 2011; Welch *et al.*, 2011) have reclaimed a place for qualitative research as an integral part of IB research. The following table summarizes the method used to answer each research question:

Table 11. Research questions and methodology

Research question	Methodology	Strategy	Tools used for data collection*
1. Which challenges are the subsidiaries facing in China as a result of the business environment and practices there? Do they differ among subsidiaries?	Quantitative	Survey	Questionnaire 2 (self-administered online)
2. Which externalities do COO FDI agglomerations provide? Do they differ among subsidiaries?	Quantitative Qualitative	Survey	Questionnaire 3 (Interviewer administered: Structured)
3. How is the role that geographic expatriates' communities of practice have in COO clusters? How do they develop and build the social capital of the subsidiary network?	Qualitative	Case study	Interviews (one-to-one, face-to-face)

(*) check section about data collection for further details

Source: own elaboration

Saunders *et al.* (2015) classify the research strategies into experiments, survey, case study, grounded theory, ethnography, action research, cross-sectional and longitudinal studies and exploratory, descriptive and explanatory studies. Table 13 displays these conditions and shows how each is related to the five major research methods that Yin discusses. We have adopted the case study and the survey as main strategies.

Table 12: Relevant situations for different research methods

Strategy/ Method	(1) Form of research question	(2) ¿Requires control of behavioural events?	(3) ¿Focuses on contemporary events?
Experiment	How, why?	Yes	Yes
Survey	Who, what, where, how many, how much?	No	Yes
Archival analysis	Who, what, where, how many, how much?	No	Yes/no
History	How, why?	No	No
Case study	How, why?	No	Yes

Source: Yin (2009: 8)

The survey strategy is usually associated with the deductive approach. The data collected using a survey strategy can be used to suggest possible reasons for

particular relationships between variables and to produce models of these relationships (Saunders *et al.*, 2015).

According to Gill and Johnson (2002) case study research may perhaps be most appropriate when little is known about a topic and where in consequence there can be little reliance on the literature or previous empirical evidence. It focuses on understanding the dynamics present within single setting (Eisenhardt, 1989) but this context-dependent knowledge and experience is more valuable than the vain search for predictive theories and universals (Flyvbjerg, 2006). This method seeks to make sure that the phenomenon under study is well explored and understood (Stake, 1995; Yin, 2009). Case study is most suitable for the study of real-life contemporary phenomenon that requires in-depth understanding (Stake, 1995; Yin, 2009), and it is especially appropriate to study business networks (Halinen and Törnroos, 2005).

Yin (2009:46) defines the case study design considering the following matrix that shows how single and multiple case studies reflect different design situations. Although authors such as Eisenhardt (1989) recognizes that there is an ideal number of cases as this depends on the aim of the research, she suggests that a number between 4 and 10 cases is recommended. However, authors such as Dyer and Wilkins (1991) defend the use of a single case that allows a deeper understanding of the context, the structure and the social behaviour of the phenomenon. A single case is justified when the selected case is critical to contrast that theory, is unique and permits the analysis of a phenomenon that has not been researched before.

When analysing Mondragon Park's international social capital (research question 3) the case could be considered a single-embedded case as we take the industrial park as a single case but with different units of analysis, i. e. the different subsidiaries located there (13 units). Guerring (2004: 341) defines the case study as "*an intensive study of a single unit with an aim to generalize across a larger set of units*". Even if our aim is not to generalize our conclusions, as Denscombe (1998) or Flyvbjerg (2004) argue, a case study could illuminate the general by looking at the particular and serve as a force of

example, crucial for the scientific development. As we will explain in the following sections, the research process followed different stages. We had an exploratory state in 2009-2010 that helped looking for case studies and companies and we conducted a descriptive and illustrative research on 2013, on which the findings of this document are based.

Regarding the time horizons, the research has a cross-sectional design, as it will not trace what happens over time (Walliman, 2006) and will be mainly based on the interviews conducted over a short period of time (Saunders et al, 2015).

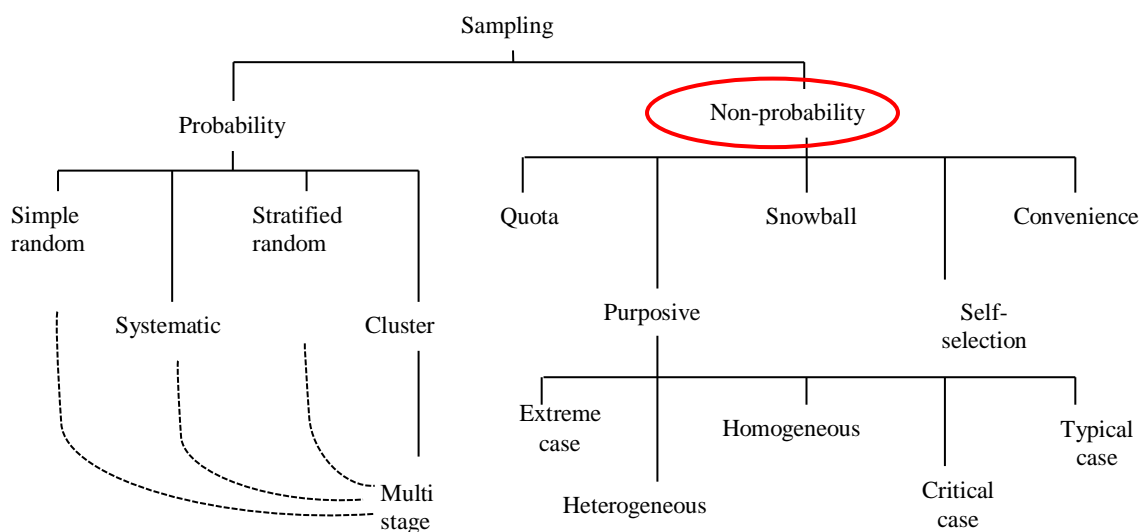
5.2 Sample, cases and unit of analysis

In this section, we will explain the process followed to select the cases, the sample and unit of analysis used in the research. We will also present a descriptive analysis of the sample.

5.2.1 Selection of cases and units

Saunders *et al.* (2015) show as an overview of sampling techniques used in research.

Figure 18. Sampling techniques



Source: Saunders et al., 2015: 153

Saunders *et al.* (2015) argue, access or entry to organizations is the most difficult and important part of the research. Furthermore, as Heimer and Thogersen (2006) state, doing fieldwork inside the People's Republic of China is an eye-opening but sometimes also deeply frustrating experience. Due to the nature of our research questions and to minimize these risks, and based in the exploratory research, non-probability sample was selected. Non-probability sampling provides a range of alternative techniques based on a subjective judgement but is often a more convenient technique for case studies.

With purposive sampling we mean that the researcher used its judgement to select the cases to be analysed taking into account the objective and research questions of the research. For the quantitative part (research questions 1 and 2), we wanted to select homogeneous subsidiaries that fulfil the conditions that we will describe in the following section (similar size and where the country-of-origin was a relevant feature of the investors, etc.). Besides, to contrast the effect of collocation we looked for heterogeneity by selecting firms from the same country of origin located in the same area but not collocated within an industrial park.

For the qualitative study (research question 3), we had identified a critical case that was important to us (MKIP) due to the process followed in the exploratory research. The researcher worked on an exploratory research in 2009- 2010 where she visited and interviewed people from different industrial parks in China and experts on the topic under analysis for the case where the qualitative research was to be conducted (Mondragon Industrial Park). This stage of research, included, among others, meetings and interviews with 4 members of Mondragon Corporate office, 13 managers of 10 firms in MKIP (Kunshan), 4 Basque isolated firms (Kunshan), 5 Spanish firms in SIP industrial park (Suzhou), 4 Spanish firms in Cixi Ningbo European Industrial Park (Cixi), 3 members of Taicang Economic Development Zone (Taicang), the promotor of Kunshan German Industrial park (Kunshan). The researcher also meet relevant individuals from other institutions (Chief Representative SPRI⁴ China, Head of

⁴ SPRI: business development agency for the promotion of industry of the Basque Government

the Industrial Goods Department at Economic and Commercial Office of Spain, professors in CEIBS-China Europe International Business School, or the Director Vocational Training and Head of Department of AHK⁵).

These preliminary contacts and interviews were very useful to gather information and contact interviewees during the data collection in 2013. They adopted the role of *brokers* or *gatekeepers* (Saunders *et al.*, 2015). These contacts and interactions help building credibility with intended participants, developing the researchers' access on an incremental basis, and identifying possible benefits for the organisations in granting us access, all strategies that according to Saunders *et al.*, (2015) are useful to gain access. Based on the interviews, visits and preliminary research, we compared different parks in order to select the most appropriate cases.

Table 13. Information about possible cases

CASES	Promotor	Size	N. Co.	Investment	Level	Location
MKIP	Mondragon Business Group	550.000 sqm	14 (13 Basque)	32 million EUR	Local	Kunshan Jiangsu
KGIP	Municipal Government and GIC-Shanghai	440.000 sqm	27 (10 German)	50 million EUR	City	Kunshan Jiangsu
TCEDA and TRT	Taicang Municipal Government	80 sq Km	>150 German (29 TRT)	1 billion USD	Provincial	Taicang Jiangsu
SIP Ind. Park	Chinese and Singapore governments	268 sq Km	7 Spanish	35 billion USD	National	Suzhou Jiangsu
CIXI N.E. Ind. Park	Chamber of overseas Chinese Businessmen Sabadell Chamber of Commerce	267.000 sqm	25 Spanish	60 million USD	State	Cixi Zhejiang

Source: own elaboration

⁵ AHK Greater China: Office of German Chambers of Commerce Worldwide Network (AHK)

The criteria to select the cases was based on a number of factors:

1. Size of the parks (squared meters, sqm)
2. Number of companies from the same country-of-origin (N. COO)
3. Total investment of the parks
4. Level of the park (local, municipal, etc.)
5. Location of the parks (same province)
6. Access to interviewees and response rate
7. Costs for researcher (traveling, etc.)

Based on that we evaluated the cases taking into account that our critical case was MKIP:

Figure 19. Comparability of cases

	MKIP	KGIP	TCEDA-TRT	SIP	CIXI
Size	550.000sqm				
N. COO	13				
Investment	32 m				
Level	Local				
Location	Kunshan				
Access	High				
Cost	High				

Comparability

	High
	Medium
	Low

Source: own elaboration

As Robson (2002) suggests, building a relationship with participants is important to gain access and collaboration. For interviews, we selected the case where we have more access and that the researcher know most (Mondragon). The number of interviews is in line with the recommended minimum sample size of between 15 and 25 for qualitative research (Suddaby, 2006; Mason, 2010). The researcher had a previous contact with the interviews of that case and got access to 13/14 firm members of that park. We can say that the response rate was of 100% if we acknowledge the regions of origin, as that other company was not Basque but Galician. There were 4 members that were about to establish in MKIP in 2013 that we also included in the research. We included 4 of them in the research and starting collecting data from 4 of them (online questionnaire) but we finally excluded one of them as the company decided that it was no longer going to consider establishing their facilities in that area.

As seen in figure 19 the most appropriate case to complement the analysis of MKIP was the German park in Kunshan (KGIP). From the 10 German firms

there we got a response of 5 managers (50%). Besides, as mentioned before, we wanted to contrast some results with isolated firms. For that we contacted all the Basque firms that were located in Kunshan but were not members of any industrial park (5 firms). More details about data collection will be described in section 5.3.

The key principle underlying the selection of our cases was relevance rather than representativeness (Eisenhardt 1989; Yin 2009) but the findings could be transferable to other kind of geographical agglomeration of firms where interconnections exist. Furthermore, the firms analysed are very homogeneous in terms of the variables that could influence the strategic decision associated to the localization and establishment mode choice (size, property, strategic reasons, activity sector) (Dikova and Brouters, 2016). Under this perspective, we can control in a better way the comparisons we make between the different opinions that the managers have.

The following lines present the choice of the unit of analysis. Ghauri and Grønhaug (2002) point out that the unit of observation is not to be confused with the unit of analysis.

Table 14. Units of analysis

Research topic	Methodology	Units of analysis	Informant
Challenges faced in China	Quantitative	Unit: Subsidiary - 12 subsidiaries in MKIP (A1 excluded- General services) - 4 subsidiaries in KGIP (B5 excluded- Startup Services) - 3 subsidiaries to enter MKIP in 2013	Subsidiary manager
Agglomeration and cluster effect	Quantitative Qualitative	- 5 Basque isolated subsidiaries Total: 24 subsidiaries	
Social Capital	Qualitative	Embedded single case: - Case: MKIP (1 park) - Units: member subsidiaries (13 firms)	Subsidiary manager

Sources: own elaboration

Defining a unit for analysis may be the most difficult in case studies (Yin, 2009). For the research question related to Social Capital, we used the case study of Mondragon Kunshan industrial park. Following Villarreal and Landeta (2010), the case's technical report of the case could be summarized as follows:

Table 15. Technical report of the case

Aim of the case study	How is the role that geographic expatriates' communities of practice have in COO clusters? How do they develop and build the social capital of the subsidiary network?
Methodology	Single case embedded case. Descriptive, exploratory, explicative and illustrative
Unit of analysis	Subsidiaries from the same country-of-origin co-located in an industrial park
Geographical scope	Qiandeng, Kunshan, provincia de Jiangsu, Pearl River Delta, East China
Universe	Multinational subsidiaries
Type of sample	Non probability - Purposive
Sample	- Colocated subsidiaries in MKIP - Members of the administrative agent of the park - Established before Dec. 2013
Data collection method	- Document review: annual reports, news, emails, etc. - One-to-one, face-to-face interviews - Company visits - Physic and technological artefacts,
Sources of information	- Internal: documents, interviews, presentations, emails, interviews, physical context - External: research, databases ORBIS, corporate magazine, academic journals, news, SPRI reports, etc. etc.
Informants	General managers of the subsidiaries
Data analysis	Qualitative
Scientific approach	Deductive and inductive. Replication logic.
Research quality	Validity (internal, external, constructive), reliability, consistency (theory- interpretation- context).
Dates	1 March- 31 July 2013 (data collection)

Source: own elaboration

5.2.2 Descriptive analysis

Research questions 1 and 2 are mainly of a quantitative nature and will be explored by analysing 24 foreign subsidiaries in China. Research question 3 is related to the specific analysis of social capital in one of the cases, Mondragon Kunshan Industrial Park. In this section, we will explain the main characteristics of this sample and case study.

- *Sample*

As mentioned previously, the sample used for the analysis of those research questions of a quantitative nature is formed by 24 subsidiaries: 12 subsidiaries in MKIP (A1 excluded- General services), 4 subsidiaries in KGIP (B5 excluded- Startup Services), 3 subsidiaries to enter MKIP in 2013 and 5 Basque isolated subsidiaries.

The analysis of the sample will be divided into 3 parts. Even if our main unit of analysis for the quantitative analysis is the subsidiary, we will introduce the main characteristics of the Headquarters, describe the subsidiaries and our respondents/ managers in the subsidiaries.

Most of the headquarters of the sample (67%) have less than 50 years of existence and in terms of the activity, 96% of the firms are industrial, 87% of the headquarters are related to manufacturing, and 57% to machinery, equipment, furniture and recycling sector. Appendix 1 shows the basic descriptive data of the HQs of the sample. Half of the Headquarters are cooperative firms and 75 % belong to a business group. Regarding Orbis' size categories of the companies, almost 80% of them are large or very large firms. Most of the companies of the sample are Spanish (83%). In terms of their internationalization level, if we just consider the subsidiaries that the firms have outside their main domestic markets we can see that they majority of companies (71%) of the companies have more than 50% subsidiaries abroad. Regarding the number of subsidiaries abroad, 75% of the companies have less than 10 subsidiaries abroad. The cultural diversity of their internationalization, measured as the weighted cultural distance of the companies (De Jong and Van Houten, 2014) is low for the majority of the firms (83,3%).

Most of the subsidiaries analysed are subsidiaries that are or will be located in industrial parks. Most of the firms are small (62%) and 54% of the firms are on rented facilities. In terms of size, the factories/ offices are of less than 5000 sqm and with more direct than indirect workers. Half of the subsidiaries of the sample entered in China due to market seeking reasons, 21% due to resource

and efficiency seeking reasons, and the rest due to a combination of strategic, market and resource seeking motives. If we take 2010 as a reference, we can say that 62% of the firms were established there before that date. As for the starting date of their operations there is an average of 14 months since they obtain their business licence until they start operating but most of them (55%) take less than a year. As for the sector is concerned they are all manufacturing subsidiaries (100%), many of them related to equipment (17%) and automotive (17%) sectors. Regarding the technology level, the 79% of the subsidiaries have the same or higher level of technology than their headquarters. In terms of market, 92% of the subsidiaries are B2B and 71% of the firms have 50% of more of the total sales in Asia. From those subsidiaries that sell in Asia, most of them adapt the product or the service to a certain extent. Half of the subsidiaries do not have any other establishments in China (representative offices, agents, distributors, sale offices, production plants, etc.). From the 50% that has any other establishment, most of them (33%) have just one more establishment in China. Appendix 1 shows the basic descriptive data of the subsidiaries of the sample.

The profile of the interviewees is characterized as mainly male expatriates (91,7%) of less than 44 years old (75%), and with postgraduate level education or higher (58%). Regarding their work experience in the company, when the data was collected (April 2013) 54% of them had 4 years or less of experience in China. Appendix 1 shows the basic descriptive data of the managers of the sample.

- ***Case: MKIP***

Mondragon Kunshan Industrial Park (MKIP) has been promoted on one hand, by the Basque Government and on the other hand by Mondragon Business Group.

The Basque Country is one of the Spanish regions with stronger managerial practice and better institutional factors that support of the internationalization of firms (García- Cabrera and García-Soto, 2017). The park in Kunshan (in

China it is called Spain Industrial park/ 西班牙工业园) is the first international business park that SPRI (Basque Government office business promotion) supported through a collaboration agreement signed with in Qiandeng, a town under the jurisdiction of Suzhou in the Yangtze River Delta, between the two large metropolises of Shanghai and Suzhou. In Dec. 2014, the park was awarded the honour of Demonstration Area of China Spain Industrial International Cooperation by Technology Ministry. It is the 2nd international technology cooperation demonstration area in Kunshan City.

Initially the Park ideas originated from 2004-2005 but it was not inaugurated until 2007. The idea initiated by the Vice President of Mondragon Group and Mondragon Industrial Equipment Division, who know that one of the companies which had a JV wanted to establish a WFOE firm and another company from the division needed to relocate its subsidiary from Shanghai (Shanghai Government would like to outline that area to be Automotive Specific). He saw the opportunity to co-locate various companies from the same division in the same park. Shanghai, Zhejiang and Jiangsu offer the best environment for investment, the legal framework is stable, it has access to ports as well as to the main consumer market (Shanghai) and has good human resources. The park is located in Qiandeng, a town under the jurisdiction of Suzhou in the Yangtze River Delta, Jiangsu province.

Table 16. Geographic situation of Mondragon Kunshan Business Park

Province	Jiangsu		
Seaport (from Kunshan)	Shanghai	Distance(km)	60
	Taicang	Distance(km)	40
Airport (from Kunshan)	Pudong	Distance (km)	92
	Hongqiao	Distance (km)	42
Main nearby cities	Shanghai	Distance (km)	60
	Suzhou	Distance (km)	60
	Kunshan	Distance (km)	24
Roads	It position is along Shanghai-Nanjing Highway, the Suzhou-Shanghai Expressway and State Highway 312		
Railway	Its position is along the route of the Beijing-Shanghai Railway		
Information on the surrounding	It borders on Shanghai-Ningbo Expressway, the 312 state way, Shanghai-Ningbo Railway and the planned Shanghai-Ningbo High-Speed Railway		

Sources: derived from KETDZ, 2010 and China Knowledge, 2010

In 2010, the park had a total of 330.000 sqm and 12 investor firms and around 170 million USD investment, but there was an agreement signed in September 2010 with the Basque Government to expand the park and reserve another 220.000 sqm for more implementations. The planning in the coming 5-10 years is to get 60 Spanish companies and to reach a total investment of 2 billion USD with an annual production of 10 billion RMB.

The internationalization process of country-of-origin cluster members in China that, with the experience in Kunshan that is taking place for the very first time for Basque firms, will definitely add knowledge for further potential clustering and agglomeration projects when going to emerging markets.

- ***Mapping the actors***

We present the location of the firms in a map in order to visualize the dimensions of those clusters and the location of the isolated firms. The park where the Spanish companies are located have an approximate total perimeter area of 2.69km (figure 20). The services company A1 is in the centre of the area, where all the managers meet and have lunch, meeting or others.

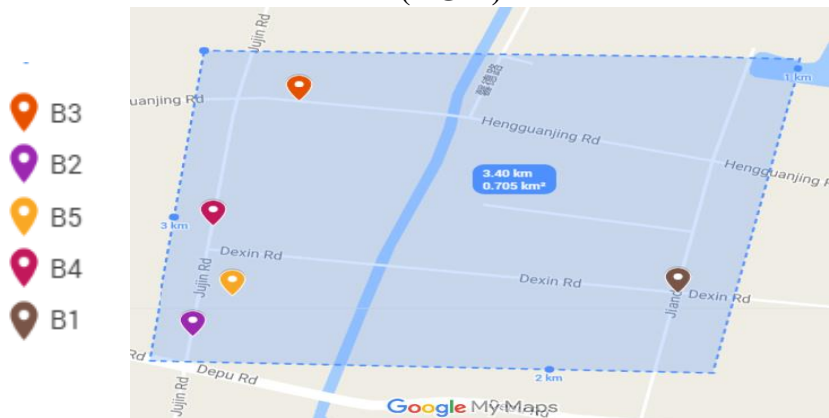
Figure 20. Location of subsidiaries in Mondragon Kunshan Industrial Park (MKIP)



Source: own elaboration based on google my maps

Similarly, the perimeter surrounding the German firms of our sample has 3.4 km. The service company B5 is at the south west of that area.

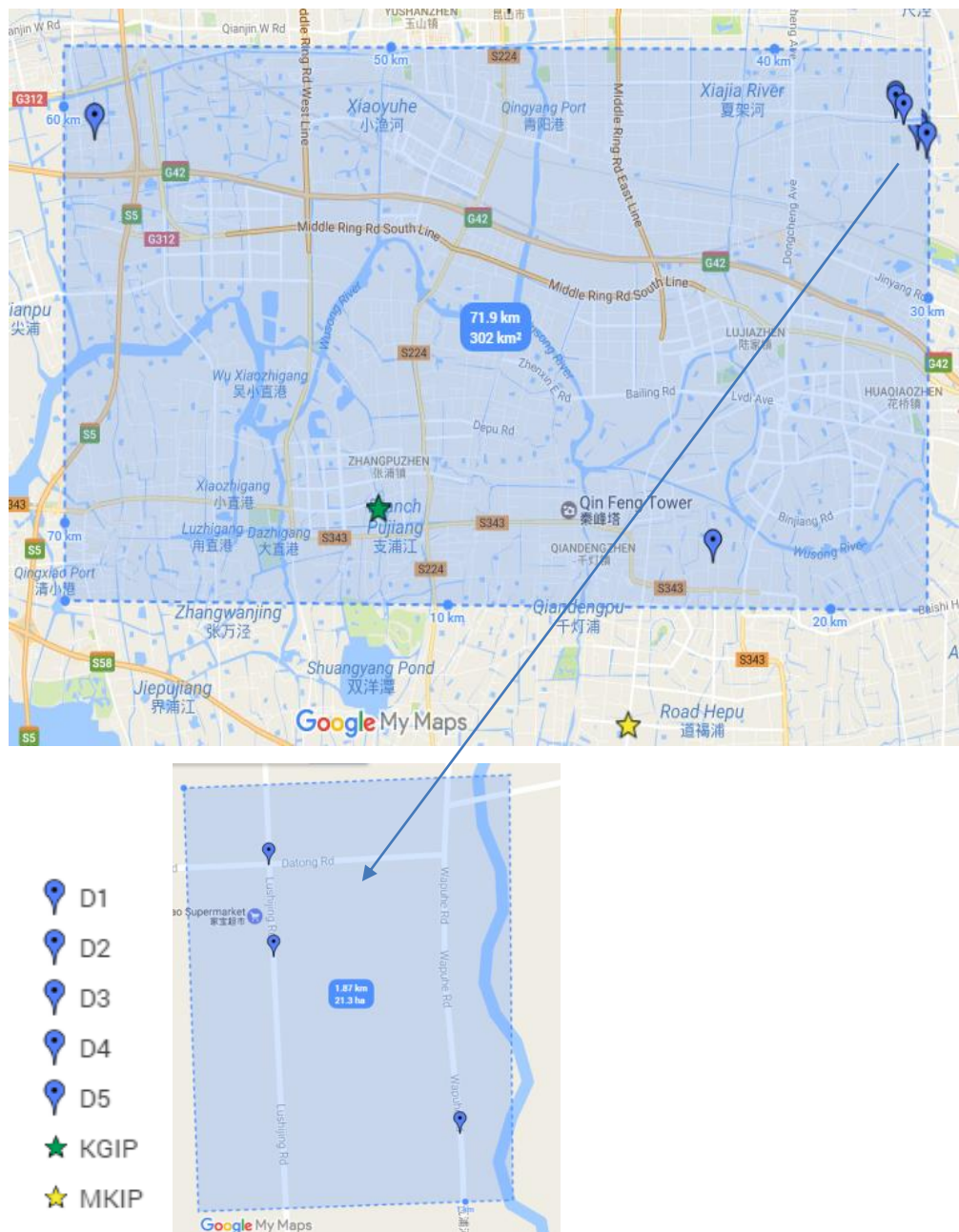
Figure 21. Location of subsidiaries in Kunshan German Industrial Park (KGIP)



Source: own elaboration based on google my maps

The isolated firms of the sample (figure 22) are in a perimeter of 79.1 km in Kunshan area. We considered them isolated as they are not members of any business park. Although D2, D4 and D5 are not that far away from each other, we have considered colocation as being member of the park (members pay fees are have several common services etc.).

Figure 22. Location of Basque non-park members in Kunshan



Source: own elaboration based on google my maps

5.3 Data collection

The proposed research is an empirical based dissertation that may employ quantitative and qualitative analysis. The problem to be researched is focused in investigating the way the differences between colocation and isolated firms both in terms of what influences the managers' perceptions on the challenges in China and the way those subsidiaries can get benefits from clustering. The qualitative analysis focuses on how one specific park builds and creates social capital that helps members reduce their liabilities, cooperate and valuable information and knowledge. We used a multi-method approach (Saunders *et al.*, 2015) where we use different methods to collect data.

As primary sources, the researcher used questionnaires, interviews and visits. The researcher visited the field 2-3 days a week for two months in 2013, spending time with expatriates during lunch, factory visits, spare time and traveling times. Entering the field allowed the researcher to take advantage of emergent themes and unique case features (Eisenhardt, 1989).

We contacted the managers through email, providing them access to internet-mediated questionnaires 1 and 2 designed and administered via the online software tool SurveyMonkey™, recommended by authors such as Saunders *et al.* (2015). Considering that the online questionnaires usually get a response rate of 10% or lower (Saunders *et al.*, 2015), our 100% response rate was highly satisfactory. We had contacted the managers in advance, confirmed their participation and explained the process of data collection, following what is called "pre-survey contact" (Saunders *et al.*, 2015). Our design was a combination of self-administered online-questionnaires 1 and 2 (Appendix 2 and Appendix 3) and interviewer administered structured questionnaire n.3 (Appendix 4). All the communications that describe the process followed to get access and contact the interviewees is shown in Appendix 5. To reduce the risks associated to self-administered online questionnaires (adequacy of the interviewee to respond those questions, proper understanding of the questions,

etc.) we double-checked the answered provided (as interviewer administered) the day when the face-to-face questionnaire n. 3 (cluster effect) was conducted.

Data from questionnaires 1, 2, 3 was collected (received responses) from 11th March 2013 to 7th June 2013 while the researcher was in China and in direct contact with the managers. Although they were conducted in English, the researcher adapted to the preferences of the interviewees that requested to express themselves in English, Spanish or Basque. The average duration of all the interviewer administered structured questionnaires was 51 minutes (with a total of 12h 26 min. of recorded audio files).

It is important to mention that we did a few pilot studies on questionnaires 2 and 3 (1 was about descriptive data on the companies and the managers). The purpose of the pilot test is to refine the questionnaire so that respondents will have no problems in answering, and enable the researcher to obtain some assessment of the questions' validity and the likely reliability of the data that will be collected (Saunders *et al.*, 2015). Two pilot tests were done to collocated firms in MKIP and one was done to one of the isolated subsidiaries. To avoid saturation from our target interviewees we selected people that worked closely with the general managers and had some experience in that specific subsidiary.

Table 17. Pilot questionnaires

Date of pilot test	Company	Duration	Position	Experience in the subsidiary
27.02.2013	A9	1:47	Finantial controller	2 years and 6 months
27.02.2013	A3	1:12	Global Purchasing manager	11 months
01.03.2013	D5	1:11	Sales Director	9 months

Source: own elaboration

Data collected was mainly categorical, being some descriptive/ nominal and some ranked/ ordinal (Saunders et al, 2015). According to Remenyi *et al.* (1998) nominal scales could be used when selecting for example the legal form of the date of birth of the managers. These types of scales help the interviewee answer the question as well as giving them the chance to include other possible factors. Ordinal scales could also be used by requesting the interviewee to rank

some factors on a likert scale from 1 to 5 according to their importance level for example. All data should be recorded using numerical codes and re-coding is a usual process for researchers (Saunders *et al.*, 2015). Coding scheme can be design to make subsequent analysis far simpler or form additional variables with less detailed categories (Saunders *et al.*, 2015). The process that we followed to operativize and code the variables from the questionnaire data to the data used in SPSS is explained in section 5.4 (variables).

Our questionnaires included mainly these type of variables, questions and measurements:

Table 18. Type of variables and measurements included in the questionnaires

Number of questionnaire	Type of variables	Type of questions	Type of measurements
1. Company and manager profile	Attribute	Open questions Close list Close category Scale questions	Categorical- nominal Categorical- ordinal Quantifiable- continuous Quantifiable- discrete
2. Challenges in China	Behaviour	Scale questions	Categorical- ordinal
3. Cluster effect	Behaviour	Scale questions	Categorical- ordinal

Source: own elaboration

The case study analysis (research question 3) is mainly based on interviews (interview guide could be found in Appendix 6).

We used semi-structured respondents interviews but we were also open to listen to comments, new themes or information that may be created throughout the interviews. This form of interviews are a tool to collect but also generate data as open questions capture data from their knowledge, understandings and experiences and can be especially valuable to access individuals' values (Byrne, 2004). In terms of the nature of interaction between the researcher and the participants, the one-to-one face-to-face interviews allowed the researcher explain and define the concepts so as to ensure a common understanding of the questions. This direct interaction favours a higher number of answers and allows the interviewees to suggest new elements and aspects not covered in our questionnaires. The interviews were digitally recorded when obtained the interviewees' consent. As suggested by Saunders *et al.* (2015), to record the

interviews allowed us follow the conversation, formulate the questions in a more accurate way, transcribe the interviews for quality tests and double checks and use direct quotes.

From 22th March to 7th June 2013, around 17 hours and 30 min of recorded semi-structured interviews about the Social Capital of MKIP were collected from dialogues with 13 expatriate managers of the companies located in the park (on average each interview took 1h 20 min.). Although the interview guide and the questions were formulated in English, the interviewees were free to answer in the language that was best for them to explain their views (Basque, Spanish, English). Most of the interviews were conducted in the managers' office in the subsidiary (MKIP) but due to the lack of availability of some of the interviewees (for instance, GM or A11 or A7), some interviews were conducted in the places and timings suggested by them (in Shanghai after work, etc.).

Besides, the fieldworker attempted to build understanding of their relationships and interactions and become familiar with their everyday talk. For doing that, the fieldworker took part in several spontaneous conversations during lunch and coffee breaks at the park itself and in out-of-work events organized by the Basque House in Shanghai. These conversations provided a more detailed understanding of staff members' opinions and feelings.

The researcher used internal documents, archival or graphical records, databases, or publications as secondary data sources. Documentation made the authors understand the background of each company through the revision of annual reports, the organization's internet and intranet website or internal emails. This archival information was used to validate the interview information (Yin, 2009). Examples of collected documents and archival information could be found in Appendix 7 and that of physical artifacts in Appendix 8. Besides, we used secondary data from Bureau van Dijk's (van Dijk, 2010) Orbis database. This secondary source has been extensively used as a research tool in management and economy studies and has been used extensively in international business studies (Brouthers and Brouthers, 2003;

Shen and Puig, 2015). It allows multiple comparative studies, having data on location, industry sector, shareholders and their nationality, financial statements, among other data.

5.4 Operativization of quantitative variables

The objective of this chapter is to describe the different variables used for the analysis by pointing out the sources of literature used for their description and the values and scales used for their measurement. For the statistical analysis the statistical package we have used is IBM SPSS Rev 20.

5.4.1 Dependent variables

Dependent variables are linked to our research objectives, that aim to analyse, from a macro perspective, the challenges that the subsidiaries are facing in China, and from a more specific approach and benefits that their obtain from their location mode.

- *Challenges that the subsidiary is facing*

We followed Fernandez *et al.* (2013), that studied European firms in China, to identify challenges on different areas: external challenges, management challenges, HR challenges, regulation challenges and competition challenges. We added the category market challenges based on Hilmersson (2011). Instead of using a multiple answer option (Fernandez *et al.*, 2013), we used a Likert scale of 5 points: (1) not at all, (2) limited extend, (3) not sure, (4) certain extent, (5) large extent. The question type raised was: “*to what extent is the subsidiary in Kunshan facing these external challenges?*”. The variables of the questionnaire are shown in the following table 20.

Table 19. Description of dependent variables: Challenges

Const ruct	Variable	Short name	Description	Mean	Variance
EXTERNAL CHALLENGES	EXTCH_COMP	Competition	Fierce competition	4	1,8
	EXTCH_ECON	Econ. China	Economy slowdown in China	2,7	1,4
	EXTCH_GOV	Gov. policies	Government policies	3,3	1,3
	EXTCH_RECOV	Global recov.	Slow recovery of global economy	3,4	1,4
	EXTCH_COST	Rising cost	Rising raw material cost	3,9	1,4
	EXTCH_APPR	RMB appr.	RMB appreciation	3,8	1,8
	EXTCH_LEGAL	Legal env.	Legal environment	3,1	1,1
	EXTCHPROTEC	Protectionism	Local protectionism	3,4	1,5
MANAGEMENT CHALLENGES	MANCH_GOVERN	Corp. Gov.	Corporate governance	2,5	1,2
	MANCH_DISTR	Distribution	Distribution problems	2,3	1,2
	MANCH_FIN	Finance	Finance related difficulties	3,3	1,7
	MANCH_IP	IP	IP infringement	2,8	1,7
	MANCH_QUALITY	Quality	Services and materials quality	3,9	1,1
	MANCH_HQSUPPORT	HQsupport	Support from head office	3,3	1,7
HUMAN RESOURCE CHALLENGES	HRCH_TALENT	Talent	Finding and hiring talent	4,1	0,9
	HRCH_COST	HRCost	Rising labour costs	4,2	0,7
	HRCH_COMMIT	Commitment	Generating commitment and loyalty	3,6	0,9
	HRCH_EXPECT	Expectations	Unrealistic expectations of young	3,5	0,8
	HRCH_FIRING	Firing	Difficulties in firing employees	2,9	1,3
	HRCH_RETAIN	Retaining	Retaining employees	3,7	0,9
	HRCH_RELOCATE	Relocating	Unwillingness to relocate	2,6	1
	HRCH_UNETHICAL	Unethical	Unethical behaviour	2,8	1,2
REGULATIONS AND GOVERNMENT RELATED CHALLENGES	REGCH_MACROEC	Macroecon.	Macroeconomic policy adjustment	2,9	0,9
	REGCH_UNCLEAR	Unclear	Unclear, changing regulations	3,2	1,2
	REGCH_CORRUP	Corruption	Corruption	3,2	1,4
	REGCH_DISPARITY	Disparity	Regional disparity in policy	3,3	1,1
	REGCH_INVOLV	Involvement	Government involvement in economy	3,1	0,9
	REGCH_STRICT	Strict reg.	Stricter regulations	3,2	1
	REGCH_LICENCE	Licenses	Obtaining required licenses	3,5	1,1
	REGCH_ENVIRON	Environment	Environment protection policies	3,1	1,4
COMPETITION CHALLENGES	COMPCH_CHINA	China comp.	Chinese competitors are getting stronger	3,5	1,9
	COMPCH_UNFAIR	Unfair comp.	Unfair competition	3,4	1,2
	COMPCH_SOE	SOE	Unfair advantage of state-owned firms	2,8	1,4
	COMPCH_FOREIGN	Foreign comp.	Foreign competitors are getting stronger	3,6	0,7
	COMPCH_ENFORCEMENT	Enforcement	Insufficient law enforcement	3	0,8
MARKET CHALLENGES	MARCH_BEHAV	Behaviour	Uncertain behaviour of customers	3	1,5
	MARCH_DISTRUST	Distrust	Suspicious relationships and distrust on customers	2,8	1,6
	MARCH_RESULT	Results	Result oriented customers	3,1	1,5
	MARCH_PLAN	Plan less	Customers budget and plan less	3,3	1
	MARCH_RELAT	Relationships	Takes time to develop relationships with clients	3,7	1,8

Source: own elaboration

These variables included on the questionnaire show that among all the challenges (40) the highest challenge (4,2/5) is related to HR costs (rising labour cost), which has the lowest variance (0,7) among all, meaning there is low dispersion on the answers given by the subsidiary managers. Distribution problems would be the least concerning factor (2,3/5) and has a variance that is near to the average (1,2). Within the construct about competition challenges we find the factor with the highest variance of 1,9 (Chinese competition getting stronger) and the factor with the lowest variance of 0,7 (foreign competitors getting stronger) meaning that there is higher consensus about the foreign competition than about the Chinese competition.

What we can see from data about external challenges (Figure 23) is that the rising cost of materials, fierce competition and RMB appreciation were regarded as some of the main challenges for these subsidiaries. Fernandez *et al.* (2013) found that 63% of the European firms in China thought that economic slowdown and competition were the most relevant external challenges.

In management terms, the quality of services and materials and finance related difficulties are the most relevant factors that the companies identified as challenges. If we take the same factors from Fernandez *et al.* (2013) we see that as opposite to our data, finance related difficulties scored the lowest on management challenges. What is common for both that study and ours is that the support from Head Office is regarded as one of the main 3 management challenges.

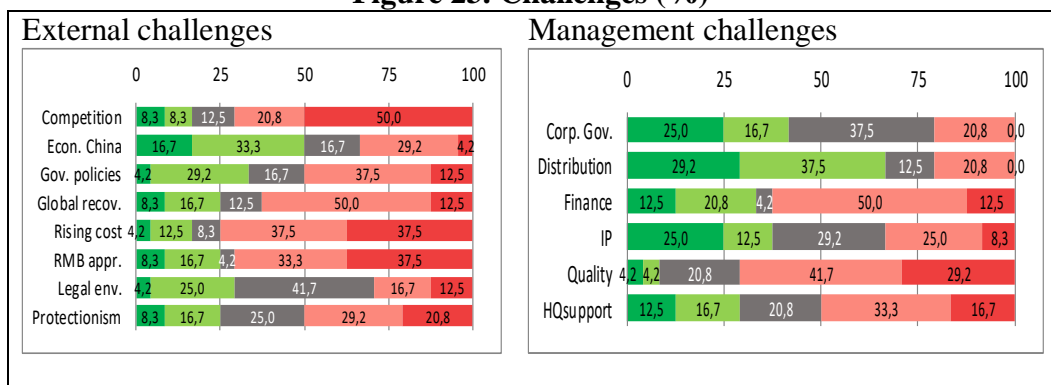
Within HR issues, Fernandez *et al.* (2013) found that 80% of the firms evaluated finding and hiring talent as the main HR issue that they had to face, followed by the rising labour costs and generating commitment and loyalty from employees. Our data also identified those 3 factors as the most relevant challenges, although in different order: 1st rising labour costs, 2nd finding and hiring talent and 3rd generating commitment and loyalty.

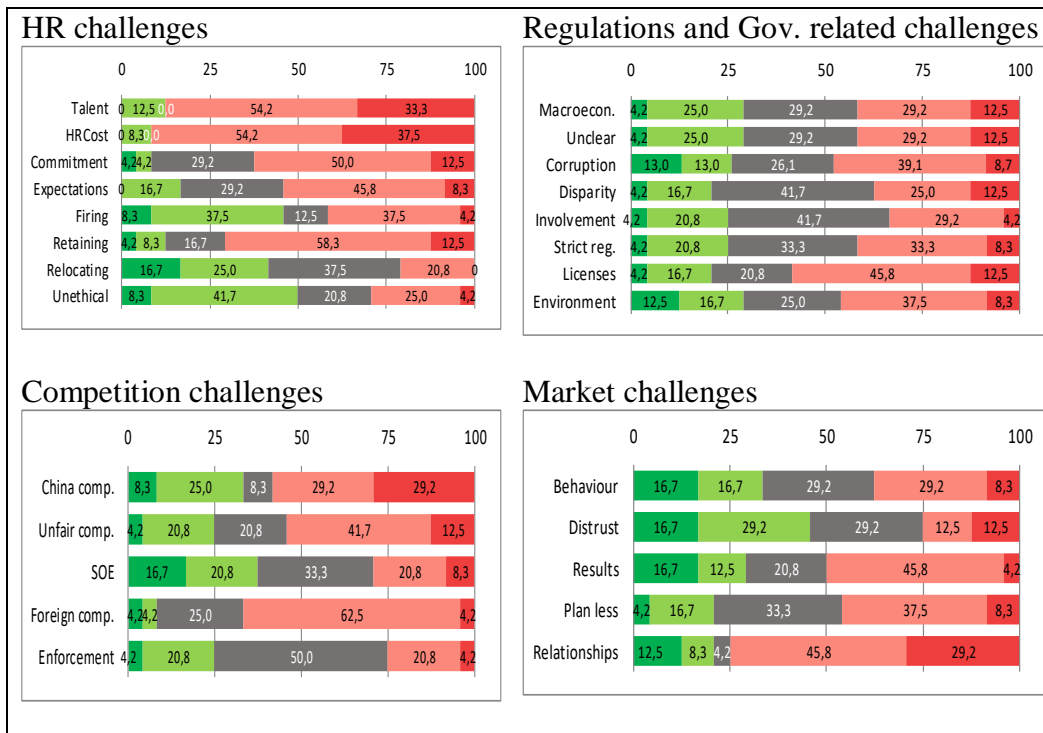
Among the factors related to the government and legal environment in China, Fernandez *et al.* (2013) found that the unclear, changing or inconsistent laws and regulations are the most important concern of European firms in China (61%), followed by corruption (44%) and macroeconomic policy adjustments (38%). If we look at the % of the graph, the highest challenges (certain or high extent) on this area for our firms are obtaining required licenses (58,3%), corruption (47,8%) and environment protection policies (45,8%).

Competition challenges was the next construct we analysed. Fernandez *et al.* (2013) found that 71% of the European firms in China evaluated “Chinese competitors getting stronger” as the most relevant competition challenge, followed by unfair competition (33%) and insufficient law enforcement (31%). The firms we analyse think that foreign competitors getting stronger (66,7%) and Chinese competitors getting stronger (58,4%) are considered to be the highest challenges on this area (certain or large extent).

When talking about the market, the time required to develop relationships with clients (75%) is by difference the highest challenge. Suspicious relationships and distrust on customers is the lowest concern for the firms we analysed.

Figure 23. Challenges (%)





Source: own elaboration

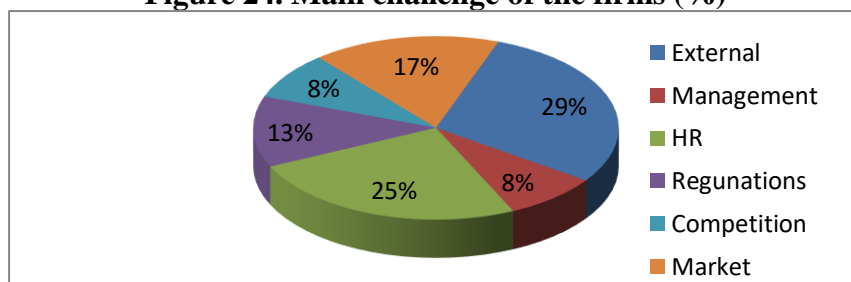
To summarize the previous information about challenges in a single variable we used the variable “MainChallenge”, where for each company we allocate the challenge with a highest rate (evaluated as the biggest challenge).

- MAINCHALLENGE: the challenge group with highest punctuation

The scale used is the following:

- 1 External
- 2 Management
- 3 HR
- 4 Regulations
- 5 Competition
- 6 Market

Figure 24. Main challenge of the firms (%)



Source: own elaboration

The data shows the main challenge for each company that shows that the highest challenges are related to external factors and HR management.

- *Agglomeration and clustering effect*

The interviewees evaluated country-of-origin agglomeration effect on these 6 areas:

- Local market knowledge and resources (LMK- “Local”)
- Industry specific knowledge and resources (ISK- “Industry”)
- Legitimacy/ reputation (LEG- “Legitimacy”)
- Network and social interaction (NET- “Networking”)
- Market conditions (MARK- “Market”)
- Costs (COST – “Costs”)

The scale used to evaluate the agglomeration effect on the subsidiaries regarding these areas was a 5 point likert scale: (1) Not at all, (2) Limited extent, (3) Not sure, (4) Certain extent, (5) Large extent.

Table 20. Description of dependent variables: Cluster effect

Construct	Code	Short name	Description	Mean	Var.
Local (LMK)	A2LMKEST	Establ	Knowledge and capacity for the establishment process and to surpass country entry barriers	3,6	1,4
	A2LMKADAPT	Adaptation	Knowledge about how to adapt and transform your management routines and business practices to the local setting	3,2	1
	A2LMKLEGAL	Legal	Knowledge about the legal environment, norms and institutions	3,2	1,6
	A2LMKCULT	Culture	Knowledge about culture, religion and language in China	2,8	2,1
	A2LMKFINDW	WorkerCult.	Performance to find local workers familiar with your home language, culture, infrastructure, entertainment, markets, etc.	2,4	1,5
	A2LMKTIME	TimeCountry	Time you spend searching for country-specific information	3,2	1,7
Industry (ISK)	A2ISKIND	Industry	Knowledge about industrial forecast and competition	2,2	1,8
	A2ISKSUPPLIER	Supplier	Knowledge a about suppliers' behaviour	3,2	1,6
	A2ISKSPEC	Specialized	Access to specialized intermediary goods and services (quality goods and services)	2,8	1,6
	A2ISKFINDSW	WorkerSpec.	Capacity to find specialized and qualified labour familiar with your activities' needs	2,6	1,6

	A2ISKKTECH	Technology	Knowledge about technology trends	2	1,7
	A2ISKACCTECH	TechRes.	Access to technological resources	2	1,7
	A2ISKPROT	Protection	Protection against expropriation (of technological know-how, etc.)	2,4	2,1
	A2ISKINNO	Innovation	Innovation capacity: product/ process/ organizational/ marketing	2,4	2,3
	A2ISKTIME	TimeInd.	Time that you spend searching for industry-specific information	2	0,9
	A2ISKEFFIC	Efficiency	Productivity and efficiency	2,3	2
	A2ISKINPUT	Inputs	Access to productive inputs: variable (workers, electricity, transportation, raw materials) and fixed (land, factory, equipment, key managerial personnel, etc.)	3,5	1,6
Legitimacy (LEG)	A2LEGNORM	Normative	Capacity to gain normative legitimacy: follow norms, standards, accreditations, procedures, etc.	3	1,9
	A2LEGPRAGM	Pragmatic	Capacity to gain pragmatic legitimacy : fulfil the interests of stakeholders	2,7	1,7
	A2LEGCOGN	Cognitive	Capacity to gain cognitive legitimacy : pursue objectives, and activities that society understands	2,8	1,3
	A2LEGKLOCAL	Local leg.	Knowledge about how to achieve local host country legitimacy	2,9	1,6
	A2LEGSPILL	Spillovers	Capacity to gain legitimacy spillovers generated by previous entrants from the same country or due to network and interlinks back home	3,7	1,3
	A2LEGVISIB	Visibility	Firms' visibility and representation	3,4	1,4
Networking (NET)	A2NETACCTACT	Tacit	Access to tacit knowledge and share experiences	3,5	1,2
	A2NETCOLLAB	Collaboration	Likelihood of collaboration to share information that increases your competitiveness and profitability	3,5	2
	A2NETSOCIALACT	SocialAct	Cooperation and integration of social activities with other firms	2,8	2
	A2NETPROFACT	Prof.Act	Cooperation and integration of professional activities with other firms	3,1	1,5
	A2NETPUBLIC	Public	Efficiency and access to public resources and business supporting programs	2,8	1,2
	A2NETPERSSUP	Personal	Capacity to gain personal support	3,7	1,8
	A2NETPROFSUP	Professional	Capacity to gain professional support	3,3	1,3
	A2NETLOO	LOO	Capacity to surpass liability of outsidership and build guanxi (problems linked with being outside an important business network of relationships and contacts in a new market)	3,2	1,3
	A2NETTRUSTFORM	TrustFormal	Trust developed due to interaction in formal networks (business associations, etc.)	2,3	1,2
	A2NETTRUSTINF	TrustInformal	Trust developed due to interaction in informal networks (personal and family, associations, etc.)	3,2	1,6
A2NETTRUST	TrustOthers	Capacity to gain trust among other firms	3,3	1,6	

Market (MARK)	A2MARKMOTC UST	Customers	Motivation to improve the performance due to the demands of highly competitive local customers	2,3	1,9
	A2MARKMOTC OMP	Competitors	Motivation to improve the performance due to the demands of highly competitive local competitors	2,2	1,9
	A2MARKSURV	Survival	Firms' chance of survival	2,4	2
	A2MARKSPEED	Speed	Speed of reaction to competitor's and customers' moves	2,1	1,2
	A2MARKFINDP	Partners	Capacity to find business partners	2,4	2,2
	A2MARKKMC	MarketKnowle dge	Knowledge about market and local customers' needs	2,1	1,8
	A2MARKSALES	Sales	Access to customers and new sales opportunities	2,1	1,4
	A2MARKBUSO P	NewOpport.	Capacity to access or create new business opportunities	2,5	1,7
Costs (COST)	A2CCOSTLOG	Logistics	Costs on transportation/ logistic	2,3	2
	A2COSTTRANS	Transaction	Transaction costs (due to trust and direct contact)	3	1,5
	A2COSTINP	Inputs	Costs of specialized input suppliers and business services	2,8	0,9
	A2COSTSPWOR K	Workers	Costs of qualified and specialized workers	2,8	1,2
	A2COSTINFRA S	Infrastructure	Costs of infrastructures	2,6	1,5
	A2COSTTECH	Technology	Costs of technology and R&D	2	2
	A2COSTINCEN	Incentives	Savings due to specific incentive schemes (from Government etc.)	2,5	1,3
	A2COSTFINAN	Finantial	Costs on financial resources	2,8	1,6
	A2COSTPHYSR	Physical	Costs of physical resources: plant, land, equipment, etc.	3	1,8

Source: own elaboration

This data from the variables of the questionnaire shows that among all the variables, the biggest positive effects are on the capacity to gain personal support and to gain legitimacy spillovers (3,7/5) while the lowest are on the costs of technology and R&D, the knowledge about technology trends, the access to technological resources and the time spent on searching for industry-specific information (2/5). The variable with lowest variance is the costs of specialized input suppliers and business services and time spent to search industry-specific information (0,9) and the one with the highest variance, and thus, disagreement, is the innovation capacity (2,3).

From the graphs (figure 25) it looks that the main advantage from their location mode are associated to their knowledge and capacity for the establishment process and to surpass country entry barriers and the time they spend searching for country-specific information.

Regarding the cluster effect on industry specific knowledge and resources most of the main advantages perceived from the firms' location mode are related to the access to productive inputs and knowledge about the suppliers' behaviour.

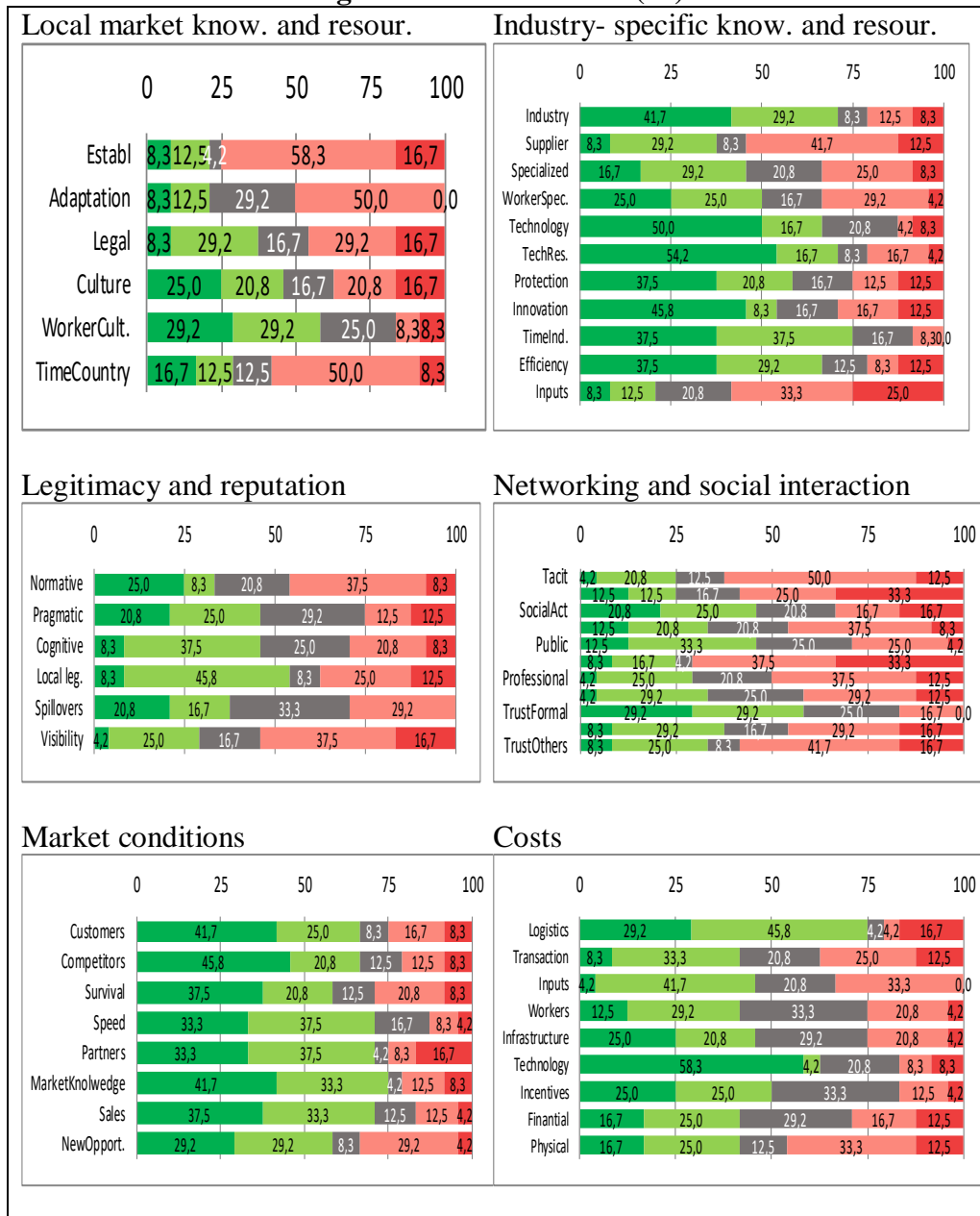
In terms of legitimacy and reputation related factors, the main advantages perceived from the firms' location mode are linked to gaining visibility and representation as well as normative legitimacy.

70,5% of the firms perceived that their location gave them advantages (certain or large extent) on getting personal support, 65.5% of them advantages of accessing tacit knowledge and share experiences and 58,4% on gaining trust among other firms.

As compared to other constructs, it is quite evident from the graph that the perceptions about the advantages on market conditions are lower. The most evident ones are linked to accessing new business opportunities and the lowest are related to improving the speed of reaction to competitors' and customers' moves.

What we can see from the descriptive data about the cluster effect on costs is that in general, the firms' perceptions about the savings related to their location mode do not seem to be very high. The highest punctuations (certain or large extent) are on the cost of physical resources and transaction costs but just for 45,8% and 37,5% of the firms.

Figure 25. Cluster effect (%)



Source: own elaboration

5.4.2 Independent variables

During the exploratory research the researcher perceived that even if the subsidiaries were similar in terms of the entry mode through WFOE, location (Kunshan), type of entities (industrial firms), size (small-medium), etc. there was an heterogeneity on the perceptions and participation they had on that common space. Thus, to analyse the distinction on perceptions (when the entry mode and location were the same) we decided to analyse the data considering the entry reasons and localization mode.

Data used as independent variables show that the sample is mainly composed by collocated firms (79%) that entered in China due to market- seeking reasons (50%). The following section will explain how these two variables were measured and operationalized.

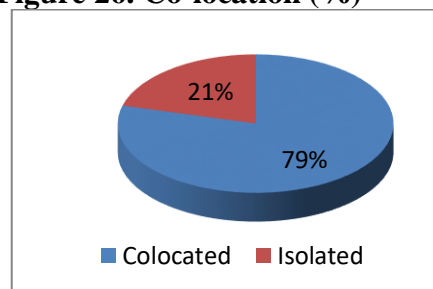
- ***(Co)location mode***

Colocation measures the decision as to whether these MNEs invested in either an ethnic cluster or an industry cluster network without distinguishing which of them is. Authors such as Shen (2015) or Puig *et al.* (2016) had already used a similar variable (“agglomerated” or “cluster”) by taking methodologies such as the location quotient or the perception of the managers.

In our case, we contacted the administration and service companies of those industrial parks and they provided the information about the membership of firms. Besides, we displayed the locations on a map, to check the geographical proximity of the clustered firms and visited each of the companies *in situ*. The variable takes the value 1 for co-located firms and 2 for isolated firms.

- 1 Colocated: subsidiaries that are or plan to be located inside and industrial park where they have a membership status.
- 2 Isolated: subsidiaries that are not members of any industrial park.

Figure 26. Co-location (%)



Source: own elaboration

- ***Establishment reasons***

Following Fernandez *et al.* (2010) that focus their research on European firms in China, we described 6 reasons for the establishment of our sample companies in China:

- 1) REA_Customer: Follow or be close to customers (offer local presence, services, products to international or domestic customers)
- 2) REA_Costs: Reduce costs (produce cheaper, increase profit margin, be more competitive on Chinese or world market)
- 3) REA_Growth: Growth (increase global turn over and expand market share in China)
- 4) REA_InterCompe: Fight international competition (Establish a strong market position in China before Foreign competitors can grow)
- 5) REA_ChCompe: Fight Chinese competition (Establish a strong market position in China before Chinese competitors can grow)
- 6) REA_BeChina: Because it is needed to be in China (for company image, for future health of company)

The likert scale used for the measurement was: (1) no relevant, (2) little relevance, (3) medium relevance, (4) quite relevant, (5) fundamental.

From these 6 variables, to follow or be close to customers, growth reasons and fight international competition are considered fundamental factors. Reducing costs and fighting Chinese competitors are considered the least relevant while the reasons of medium relevance is that of being in China because it is needed for company image and future health of the company.

As seen in the literature review there are several authors that classify reasons in different way. To operationalize our data by considering previous literature, we classified our answers into 3 main reasons: market, resources and strategic (see table 22).

Table 21. Reclassification of the variables about establishment reason

Used classification (Fernandez <i>et al.</i> , 2010)	Relationship with other authors' classification	Operationalized variables
Follow or be close to customers	Market seeking (Peng and Meyer, 2011; Dunning, 1988; Chang, 2006; Cui <i>et al.</i> , 2014) Follow the client (Chang, 2006)	REASONS_MARKET
Reduce costs	Efficiency seeking (Peng and Meyer, 2011; Dunning, 1988; Cui <i>et al.</i> , 2014) Natural resource seeking (Peng and Meyer, 2011; Dunning, 1988; Cui <i>et al.</i> , 2014)	REASONS_RESOURCES
Growth: increase global turnover and market share	Market seeking (Peng and Meyer, 2011; Dunning, 1988; Chang, 2006; Cui <i>et al.</i> , 2014)	REASONS_MARKET
Fight international competition: establish a market position	Oligopolistic interaction (Chang, 2006)	REASONS_STRATEGIC
Fight Chinese competition	Oligopolistic interaction (Chang, 2006)	REASONS_STRATEGIC
It is needed to be in China: company image, future	Innovation seeking (Peng and Meyer, 2011) Strategic seeking (Dunning, 1988; Cui <i>et al.</i> , 2014; Cui <i>et al.</i> , 2014)	REASONS_STRATEGIC

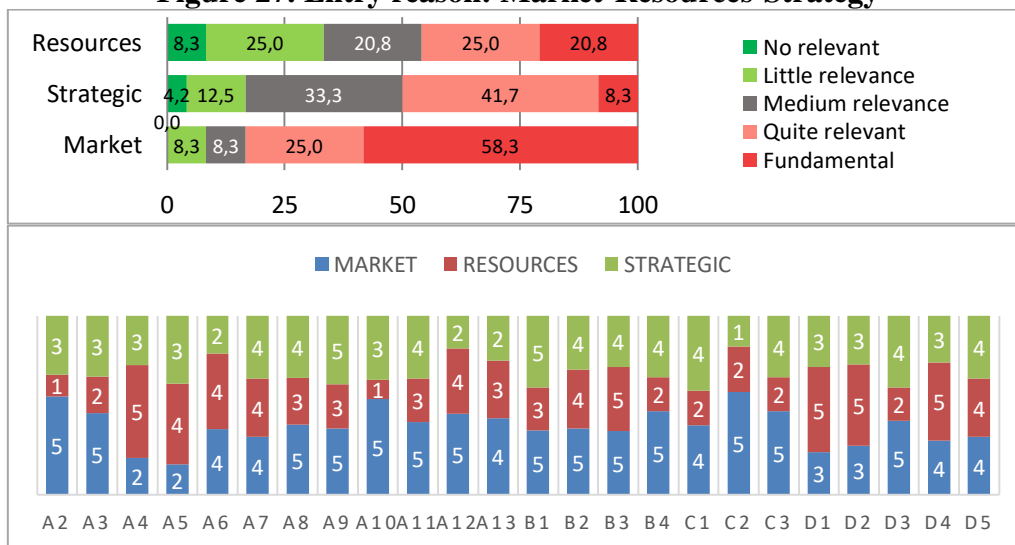
Source: own elaboration

Thus, we had the following 3 metric variables:

- REASONS_RESOURCES= REA_Costs
- REASONS_MARKET= Average (REA_Customer, REA_Growth)
- REASONS_STRATEGIC= Average (REA_InterCompe, REA_ChCompe, REA_BeChina)

This reduced information showed that the most important (valued as “fundamental”) factor was that related to market reasons, while strategic or resource seeking reasons were considered quite relevant.

Figure 27. Entry reason: Market-Resources-Strategy



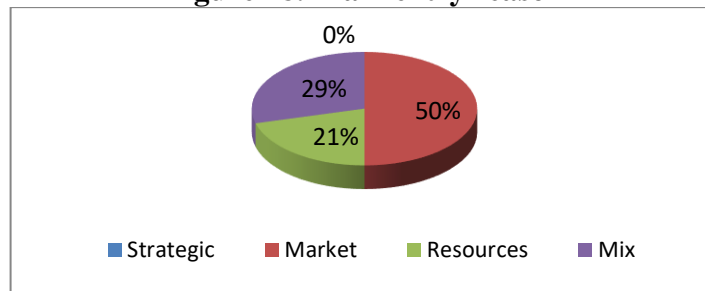
Source: own elaboration

Shen (2015) simplified this classification into (1) market-seeking (overseas market expansion), (2) strategic-asset seeking (design, R&D, acquisition of assets such as technology or know-how) and (3) mixed reasons (mixed objectives for their investment). Based on this strategy, we reduced those 3 variables into a single reason with the following variable:

“MainEntryReason” where we classified the answers of the interviewees into 4 categories:

- 0 Strategic seeking reasons: When the highest punctuation is Reasons_Strategic
- 1 Market seeking reasons: When the highest punctuation is Reasons_Market
- 2 Resource seeking reasons: When the highest punctuation is Reasons_Resources
- 3 Mix reasons: When several of the previous factors have same punctuation

Figure 28. Main entry reason



Source: own elaboration

This is the final variable that we will use for the analysis. As we can see from figure 28 the most important reason is the market (50%) while the rest is divided into mix reasons (29%) and resource-seeking reasons (21%). None of the firms considered strategy-seeking reasons as their main entry reason in China.

5.4.3 Control variables

We used a number of control variables to verify the validity of the findings. Common control variables are industry sector or size, but given the characteristics of the subsidiaries (small and medium size) and all industrial

firms) we chose control variables that are related to the degree and experience on internationalization and decision power of the subsidiaries.

As described by Dörrenbächer (2000) there are individual indicators that can be structural (e.g. the number/ proportion of foreign affiliates), performance (e.g. sum of revenues of foreign affiliates) or attitudinal (e.g. international experience of the top managers measured in years of working abroad) that are also used to measure international experience. As a structural variable we will measure the culturally distant internationalization of the firms and the subsidiary's experience (n. years) in Kunshan. As an attitudinal variable, we will take a variable that measures the managers' experience in China. Besides, authors such as Slangen and Hennart (2008) found that MNE's entry mode in culturally distant countries depends on its international and host-country experience, and on the level of autonomy, it plans to grant the focal subsidiary.

- ***Internationalization***

International experience is one of the main factors determining the entry mode of firms (Canabal and White, 2008; Maekelburger *et al.*, 2012; Schwens *et al.*, 2011; Slangen and Hennart, 2008). Firms with higher levels of international experience are more likely to choose equity entry modes when asset specificity is low (Maekelburger *et al.*, 2012) and those with previous international experience can better overcome pressures from formal institutional risk in the host country and may prefer to choose equity based market entries (Schwens *et al.*, 2011). On the other hand, firms with little international experience have higher propensity to enter culturally distant countries through acquisitions (Slangen and Hennart, 2008). In fact, experiential knowledge and international experience seem to be firm specific and transferable to all markets (Blomstermo *et al.*, 2004, Eriksson *et al.*, 1997).

Complex indexes such as the degree of internationalization scale (DOI) proposed by Sullivan (1994) suggest that the firms' internationalization should be measured by indicators such as the share of foreign sales, the number of subsidiaries or international management experience. International experience

can be measured as of the number of years that the company has been doing business outside its home country (Erramilli, 1991; Brouthers *et al.*, 1999).

On our research, we opted for available data in Orbis that was related to one of those individual structural indicators (Dörrenbächer, 2000), the number of affiliates⁶ of the firm. Authors such as Lu and Beamish (2004) used similar indicators to measure internationalization and classify firms as multinationals. However, it is not the same to go international to a culturally distant market or to a culturally similar country. We integrated the indicator of international diversification with elements that included the cultural distance.

There are many research and empirical analysis that use the cultural distance index devised by Kogut and Singh (1988). The majority of these analysis use Hofstede's framework as to quantify culture (see, for example Gomez-Mejia and Palich, 1997; Reus and Lamont, 2009; López-Duarte and Vidal-Suárez, 2010). Hofstede's framework has been widely criticized (Dikova, 2009; Dow and Ferencikova, 2010) but it has similar explanatory power as other alternative models (Drogendijk and Slangen, 2006). Another alternative to Hofstede is the GLOBE framework, but Maseland and van Hoorn (2010) suggest that this measure also has its biases in that it captures marginal preferences as opposed to culture (De Jong and Van Houten, 2014).

We adopt De Jong and Van Houten's (2014) approach, who used Hofstede's research to calculate cultural distance, but refined the measure by using the ration of the number of subsidiaries in the foreign country as to weight for the country-specific cultural distance. This "weighted cultural distance" (WCD) indicator is the variable used in our research. We classified the answers as:

- 1 Low WCD: when the value of WCD is from 0 to 5
- 2 Medium WCD: when the value of WCD is from 6 to 10
- 3 High WCD: when the value of WCD is above 10

⁶ Orbis uses the Ownership Database for the data about subsidiary firms. It considers the term "subsidiary" with no reference to the percentage of ownership between the parent and the daughter. Others would call such a company an "affiliated company" or more simply an "affiliate". However, "affiliations" may concern links with shareholders too. For this reason, Orbis prefers to call subsidiary rather than affiliate any company in which a parent owns a stake, whatever its percentage of ownership.

- ***Subsidiary decision power***

As explained before, in the network view of the MNE the HQs are not superior to subsidiaries and decisions are made by subsidiary managers, not HQ managers on their behalf (Birkinshaw and Pedersen, 2008). Recent literature has focused on the distinction between competence-creating and competence-exploiting subsidiaries in the internationally integrated network of the MNE (Cantwell and Mudambi, 2001). Then, the role of the subsidiaries comes as an important concept to consider. In fact, Slangen and Hennart (2008) found that MNEs prefer to enter culturally distant countries through greenfields, but that this preference is lower when they have little international experience, or plan to grant the focal subsidiary considerable autonomy.

Cantwell and Mudambi (2011) analysed the subsidiary's output mandate by categorizing it into: (1) sales and service; (2) assembly; (3) manufacturing; (4) product development; and (5) international strategy development. A competence-creating mandate was operationalized as a subsidiary whose output mandate is either 4 or 5. In other words, the possession of a competence-creating mandate implied that the subsidiary undertakes a high level of strategic decision-making affecting that MNE as a whole. Taking this as a reference, we asked the interviewees to specify the level of autonomy and role and obtained 23/24 responses (if it decides (1)/ executes (2)/ both (3) or if it was not applicable (4)) that the subsidiary had on the following activities and processes:

- **ROLE_SM:** Strategic Management (mission, values, strategy, management plan)
- **ROLE_ResDev:** R&D: technology and new product development, etc.
- **ROLE_Mkg:** Marketing (product price, market research, sales, advertising)
- **ROLE_Cust:** Customer management, satisfaction
- **ROL_Log:** Logistics, distribution
- **ROLE_Econ:** Economic and Financial Management (accountancy, cash management, audits)
- **ROLE_HR:** HR management (selection, recruitment, contracting, promotion, training remuneration)

- ROLE_Know: Knowledge management (generation, encoding and storage, transfer)
- ROLE_Purch: Purchasing (prospecting, selecting, evaluating suppliers, terms and conditions)
- ROLE_Inform: Information systems (ERP selection, hardware, support programs, selecting IT suppliers)

To summarize part of this information in a single variable we created the variable “ROLE_DECISIONPOWER” where we focused on those answers where respondents include any decision power. We will adopt this variable as control variable for our analysis. We classified the answers as:

- 1 LOW: Decision power low (when 1 to 5 functions contain decision power)
- 2 HIGH: Decision power high (when 6 to 10 functions contain decision power)

- *Firm’s experience in Kunshan*

As mentioned before, firms suffer from *liability of newness*, which refers to the fact that they are unable to compete effectively and have low levels of legitimacy (Guercini and Milanese, 2016). Authors such as Arora and Fosfuri (2000), Slangen and Hennart (2008) or Hilmersson and Jansson (2012) found that host country experience influences the foreign entry mode decision. Andreu et al. (2017) found that host country experience of Chinese firms has a negative impact on the choice of FDI in the sense that the greater the experience, the higher the tendency to choose a contractual agreement.

Country-specific experience makes future investments through wholly owned projects rather than licensing more likely (Arora and Fosfuri, 2000). Slangen and Hennart (2008) found that although MNEs with little international experience had a higher propensity to enter culturally distant countries through acquisitions, this was not the case for MNEs with little host country experience. Although, as previously mentioned, some authors think experience is transferable to other markets, Hilmersson and Jansson (2012) found that this not may the case for China as experiential knowledge of international

operations may not have an uncertainly reducing effect in the emerging market entry process unless that knowledge is of the host country.

We measured the firms' experience in Kunshan by taking the date of establishment of the subsidiary. One way to measure it is to collect data about the date when the subsidiaries obtained their business licence for the activity.

We asked it openly but to make it more operational we created the variable "Establishment date ("EstabDate") that was measured as

- 1 <2010: subsidiaries that obtained the business licence of the latest activity before 2010
- 2 \geq 2010: subsidiaries that obtained the business licence of the latest activity after 2010

- ***Manager experience in China***

Several studies have argued that business decisions are better taken when they are based on experience (Barkema and Vermeulen 1998; Zahra *et al.*, 2000; Casillas and Moreno-Menéndez, 2014). Some have argued that CEOs from internationally diversified firms have richer knowledge than those of domestic firms (Calori *et al.* 1994).

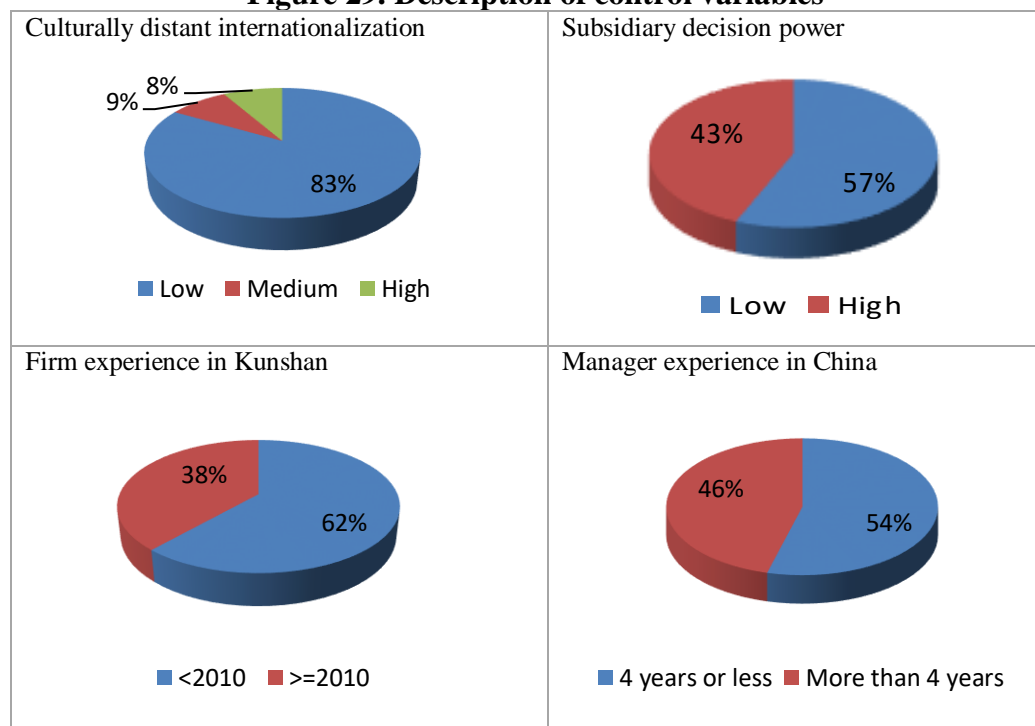
Managers may learn how to handle in the host country from their previous experience in China so this variable focuses on managers' experience in the host country. Local experience may help to learn the peculiarities of a local culture and to reduce implementation problems in future trials (Barkema and Vermeulen, 1998). Similar measurements related to MNEs' experience have been employed in research by authors such as Makino *et al.* (2002) or Shen (2015). As Selmer *et al.* (2009) point out, many studies have established an association between expatriate adjustment and time in the host location, suggesting that there is a learning process how to adjust (cf. Bhaskar- Srinivas *et al.*, 2005; Black and Mendenhall, 1991; Parker and McEvoy, 1993). However, these authors (Selmer *et al.*, 2009) found that there may be less of learning over time regarding performance, at least in case of business

expatriates in Greater China (including Hong Kong, Mainland China, Singapore and Taiwan).

To measure the managers' experience in China we took as a reference previous research that reported an average of between 3 and 5 years of stay in China (Harvey, 1997). The variable "manager's experience in China (M_ExpTotalCHina)" was measured as:

- 1 ≤ 4 years: General Manager has worked in China 4 years or less
- 2 > 4 years: General Manager has worked in China more than 4 years

Figure 29. Description of control variables



Source: own elaboration

As we see from the descriptive data, most of the firms (83%) have low level of culturally distant internationalization and 57% of the companies have low decision power, which suggest that the subsidiaries have strong executor roles for their HQs. In terms of experience, 62% have and experience in Kunshan of more than 3 years and almost half of the managers have more than 4 years of experience in China.

5.5 Data analysis

This section describes the process of data analysis. First, we will introduce some of the quantitative pre-analysis used to check the relationship among the variables and the reliability of the constructs. Then we will present all the methods used in this research, both quantitative and qualitative.

5.5.1 Quantitative pre-analysis

This section will introduce the methodologies used for quantitative data analysis in which the quantitative findings of chapter 6 will be based. Besides, it will describe some of the reliability checks of the research.

- ***Relationship among variables***

To analyse the relationship that independent and control variables may have we used contingency tables (table 24). As we will explain in the quantitative methodology section, two-way contingency tables are often used to assess statistical relationship between two variables. This will allow us understand better our findings and results.

Table 22. Relationship among independent and control variables

Adjusted residuals		Colocation		Entry Reason			Subsidiary experience in Kunshan		Culturally distant internationalization			Subsidiary decision power	
		Co-located	Isolated	Market	Resources	Mix	More exp. (<2010)	Less exp. (>=2010)	Low WCD	Medium WCD	High WCD	Low	High
Entry reason	Market	1,5	-1,5										
	Resources	-2,4	2,4										
	Mix	0,5	-0,5										
		<i>V Cramer 0,499 Sig. Approx. 0,051</i>											
Subsidiary experience in Kunshan	More exp. (<2010)	-0,9	0,9	-3,0	1,9	1,5							
	Less exp. (>=2010)	0,9	-0,9	3,0	-1,9	-1,5							
		<i>Phi -0,185 Sig. Approx. 0,364</i>		<i>V Cramer 0,611 Sig. Approx. 0,011</i>									
Culturally distant internationalization	Low WCD	0,2	-0,2	-1,1	1,1	0,2	1,7	-1,7					
	Medium WCD	-1,1	1,1	1,5	-0,8	-0,9	-1,9	1,9					
	High WCD	0,8	-0,8	0	-0,8	0,7	-0,4	0,4					
		<i>V Cramer 0,255 Sig. Approx. 0,457</i>		<i>V Cramer 0,249 Sig. Approx. 0,560</i>			<i>V cramer 0,406 Sig. Approx. 0,139</i>						
Decision power	Low	-0,2	0,2	-0,2	1,2	-0,9	-0,4	0,4	-0,4	0,9	-0,2		
	High	0,2	-0,2	0,2	-1,2	0,9	0,4	-0,4	0,4	-0,9	0,2		
		<i>Phi -0,037 Sig. Approx. 0,859</i>		<i>V Cramer 0,270 Sig. Approx. 0,434</i>			<i>Phi -0,088 Sig. Approx. 0,673</i>		<i>V cramer 0,189 Sig. Approx. 0,663</i>				
Manager experience in China	Less exp. (≤ 4 years)	-0,3	0,3	1,2	,3	-1,6	-1,8	1,8	-,9	1,4	-,1	,2	-,2
	More exp. (> 4 years)	0,3	-0,3	1,2	,3	-1,6	1,8	-1,8	,9	-1,4	,1	-,2	,2
		<i>Phi - 0,60 Sig. Approx. 0,769</i>		<i>V Cramer 0,334 Sig. Approx. 0,263</i>			<i>Phi -0,367 Sig. Approx. 0,072</i>		<i>V Cramer 0,277 Sig. Approx. 0,397</i>			<i>Phi 0,038 Sig. Approx. 0,855</i>	

Source: own elaboration

As we can see from the table 24 there are some relationships among the variables.

Data shows that the collocated firms with resource-seeking entry reasons are less than expected, while more than expected if they are isolated firms. This could be in line with some authors that argue that investment motivation has a significant impact on MNEs' location preference (Chung and Alcácer, 2002; Makino *et al.*, 2002). Although the relationship among market-seeking reasons and collocation is not statistically significant, the association that shows that the number of collocated firms with resource-seeking reasons are less than expected could be in line with the theories previously mentioned in the literature. As we described, companies could access local market knowledge through networks (Majocchi and Presutti, 2009; Brouthers, 2013) and firms seeking market expansion tend to collocated in compatriot cluster while strategic seeking firms tend to tap into industry clusters (Shen and Puig, 2015).

The number of experienced firms with market entry reasons are lower than expected (higher than expected for less experienced firms with market entry reasons). On the other hand, the number of experienced firms with resource-seeking reasons are higher than expected (lower than expected for less experienced firms with resource-seeking reasons). This could be because some years ago the firms were mainly establishing in Kunshan due to cost reasons, driven by its export-based economic model and low cost manufacturing. However, the downturn projections in the home country markets and the interest of the Chinese government to promote the internal consumption and a move the economy towards a consumption based model made firms get increasingly interested on selling in China, not just on producing at a lower costs.

Among the subsidiary's experience in Kunshan and the manager's experience in China there is a slight association but it is not strong enough (<1.96).

We will take into account these relationships when interpreting our results and findings.

- **Reliability analysis**

Cronbach's Alpha is the most popular method of examining reliability. We applied the item-total analysis for constructing homogenous measures method to the variables of each construct. As stated by Hinton *et al.* (2014) Cronbach's Alpha ranges from 0 for a completely unreliable test (although technically it can dip below 0) to 1 for a completely reliable test. According to Nunnally (1978), Peterson (1994), Slater (1995), Hair *et al.* (1999) or Grande and Abascal (2011) and the value of Cronbach's Alpha of 0.6 - 0.7 is acceptable.

The corrected item-total correlation shows "*the relationship between the responses on individual questions and the overall total score on the questionnaire*" (Hinton *et al.*, 2014: 358). As an additional check, we could use the rule supported by Ferketich (1991) or Hinton *et al.*, (2014) who recommend that corrected item-total correlations should range between 0.30 and 0.70 for a scale to be good. An item displaying a weak positive or a negative relationship to the total indicates a question that may be poor on reliability and is thus affecting the findings from the whole scale (Hinton *et al.*, 2014).

The scale mean if item deleted shows the effects on the overall mean of the scale if the item or question is deleted. Similar effects can be seen from examining the scale variance if item deleted. The squared multiple correlation gives a value for the amount of variability on this item that can be predicted by the items in the rest of the questionnaire (Hinton *et al.*, 2014).

We will present here the reliability analysis done on the 3 topics that are linked to research questions 1 and 2. We have mainly focus on the Cronbach's Alpha and corrected item-total correlation values (Cronbach's Alpha of 0.6 - 0.7 and corrected item-total correlations of 0.30- 0.70).

As shown in the following tables, after reliability checks, removed some of the variables from some constructs to obtain better and more reliable values.

Table 23. Reliability: Challenges

Construct	ORIGINAL VARIABLES			AFTER RELIABILITY ANALYSIS	
	N. Variables	Alpha Cronbach	Removed variables *	N. Variables	Alpha Cronbach
External challenges (EXTCH)	8	0,771	-	8	0,771
Management challenges (MANCH)	6	0,731	MANCH_QUALITY	5	0,745
HR challenges (HRCH)	8	0,551	HRCH_FIRING HRCH_RELOCATE	6	0,677
Regulations related challenges (REGCH)	8	0,860	-	8	0,860
Competition challenges (COMPCH)	5	0,709	COMPCH_FOREIGN	4	0,775
Market challenges (MARCH)	5	0,742	MARCH_DISTRICT	4	0,829

* when corrected item-total correlation values < 0.30 and Alpha Cronbach could be improved

Table 24. Reliability: Cluster effect

Construct	ORIGINAL VARIABLES			AFTER RELIABILITY ANALYSIS	
	N. Variables	Alpha Cronbach	Removed variables*	N.Variables	Alpha Cronbach
Local market knowledge and resources (A2LMK)	6	0.708	-	6	0.708
Industry-specific knowledge and resources (A2ISK)	11	0.884	A2ISKTIME	10	0.890
Legitimacy and reputation (A2LEG)	6	0.775	-	6	0.775
Networking and social interaction (A2NET)	11	0.843	A2NETTRUST FORM	10	0.855
Market conditions (A2MARK)	8	0.871	-	8	0.871
Costs (A2COST)	9	0.670	A2COSTTECH A2COSTINCE N	7	0.744

* when corrected item-total correlation values < 0.30 and Alpha Cronbach could be improved

5.5.2 Quantitative methods

As we will see in this section, the quantitative analysis methods used in for this research include K-mean cluster analysis, contingency tables and correspondence analysis.

- ***Classification: K-means cluster analysis***

In general, as compared with typical regression techniques, cluster analysis deals with sorting data and seeing patterns that are data-based and can be less assumption-driven (Li, 2016). It is an analysis that aims “*discovering natural groups in data*” (Anderberg, 1973: 10-24) so it sorts different objects (or observations) into groups based on their degree of association with each other, which helps creating manageable categories for analysis and evidence for decision-making (Li, 2016).

The K-means clustering algorithm (MacQueen, 1967) is one of the most well-known clustering methods in the literature. It is frequently referred to as two-stage cluster analysis or k-means partitioning. This analysis is a tool designed to assign cases to a fixed number of groups (clusters) whose characteristics are not yet known but are based on a set of specified variables. Essentially the technique seeks to minimize the variability within clusters and maximize variability between clusters (Landau and Everitt, 2004). According to Gore (2000), the most frequently used method assigns objects to the clusters having the nearest centroid. As compared to hierarchical clustering, *k*-means begins with the researchers specifying the number of clusters they wish to have formed; the *k* in *k*-means is the number of clusters (Meyers *et al.*, 2013). We created two-group cluster solutions or conglomerates.

We will present here the K-Mean analysis that were done in order to make the analysis easier and operational. The following lines will describe the summary of the analysis conducted for each of the research question n. 1 and 2. These analysis shows how each of the created conglomerates are named. This was done by cross-analysing the average values of each of the conglomerates with

the variables that were used in that analysis (components). This allowed us name each cluster as “high” or “low” depending on whether the values assigned to each of the clusters have high or low punctuations.

Table 25. K-mean clusters: Challenges

Created K-Mean cluster variables	Components	Label (average punctuations)	
		1	2
QCL_EXTCH (external challenges)	EXTCH_COMP/ EXTCH_ECON/ EXTCH_GOV EXTCH_RECOV/ EXTCH_COST/ EXTCH_APPR EXTCH_LEGAL/ EXTCH_PROTEC	High	Low
QCL_MANCH (management challenges)	MANCH_GOVERN/ MANCH_DISTR /MANCH_FIN MANCH_IP / MANCH_HQSUPPORT	Low	High
QCL_HRCH (HR related challenges)	HRCH_TALENT/ HRCH_COST /HRCH_COMMIT HRCH_EXPECT /HRCH_RETAIN / HRCH_UNETHICAL	High	Low
QCL_REGCH (regulations and government related challenges)	REGCH_MACROEC/ REGCH_UNCLEAR/ REGCH_CORRUP/ REGCH_DISPARITY REGCH_INVOLV/ REGCH_STRICT/ REGCH_LICENCE/ REGCH_ENVIRON	High	Low
QCL_COMPCH (competition challenges)	COMPCH_CHINA/ COMPCH_UNFAIR COMPCH_SOE/ COMPCH_ENFORCEMENT	Low	High
QCL_MARCH (market challenges)	MARCH_BEHAV/ MARCH_RESULT MARCH_PLAN/ MARCH_RELAT	Low	High

Source: own elaboration

Table 26. K-mean clusters: Cluster effect

Created K-Mean cluster variables	Components	Label (average punctuations)	
		1	2
QCL_A2LMK (local market knowledge and resources)	A2LMKEST / A2LMKADAPT /A2LMKLEGAL /A2LMKCULT /A2LMKFINDW /A2LMKTIME	High	Low
QCL_A2ISK (industry-specific knowledge and resources)	A2ISKIND / A2ISKSUPPLIER / A2ISKSPEC /A2ISKFINDSW / A2ISKKTECH/ A2ISKACCTECH A2ISKPROT / A2ISKINNO / A2ISKEFFIC/ A2ISKINPUT	High	Low
QCL_A2LEG (legitimacy and reputation)	A2LEGNORM / A2LEGPRAGM /A2LEGCOGN A2LEGKLOCAL / A2LEGSPILL/ A2LEGVISIB	High	Low
QCL_A2NET (networking and social interaction)	A2NETACCTACIT / A2NETCOLLAB /A2NETSOCIALACT / A2NETPROFACT / A2NETPUBLIC/ A2NETPERSSUP /A2NETPROFSUP /A2NETLOO /A2NETTRUSTINF A2NETTRUST	High	Low
QCL_A2MARK (market conditions)	A2MARKMOTCUST /A2MARKMOTCOMP /A2MARKSURV /A2MARKSPEED /A2MARKFINDP A2MARKKMC /A2MARKSALES	High	Low
QCL_A2COST (costs and savings)	A2COSTLOG / A2COSTTRANS/ A2COSTINP A2COSTSPWORK /A2COSTINFRAS /A2COSTFINAN / A2COSTPHYSR /A2MARKBUSOP	High	Low

Source: own elaboration

We will see later in the document how we used these conglomerates for the analysis of association (contingency tables and correspondence analysis). For the graphs (joint plot of category points) of that analysis, we will use “H” for “high” punctuations and “L” for “low punctuations”.

- ***Descriptive: Contingency tables***

This bivariate analysis is concerned with the analysis of whether two variables are related or not. Exploring relationship between variables means searching for evidence that the variation in one variable coincides with variation in another variables (Bryman and Bell, 2011). We are interested not in causality but in assessing whether or not there is any relationship or *association* between variables in the rows (created K-means variables about the cluster effect) and the variables in the columns (e.g. Colocation). Contingency tables are one of the most common ways to summarize observations on two categorical variables. A contingency table is like a frequency table but it allows two variables to be simultaneously analysed so that relationships between the two variables can be examined (Bryman and Bell, 2011).

Contingency tables usually show the number of cases, expected frequency and corrected residual values. Delucchi (1993) recommends a researcher identify those cells with the largest *residuals*. We will focus on the adjusted residual values. Any cell with an adjusted residual of 1.96 or more is statistically significant (VanDeVort, 2007). If we use a confidence level of 0.95, we can assure that the adjusted residuals that are > 1.96 show cells with more cases than those that were expected if the variables were independent, and adjusted residuals < 1.96 show that there are less cases that what it would have been expected under independence conditions.

The phi coefficient is used for the analysis of the relationship between two dichotomous variables and its results varies between 0 and + or $- 1$. Cramer’s V uses similar formula to phi and it can be employed with nominal variables. However, this statistic can take on only a positive value so that it can give an indication only of the strength of the relationship between the two variables,

not of the direction (Bryman and Bell, 2011). According to Sanchez (1996), if this association analysis is done on tables of 2x3 or more variables the statistical used is that of Crammer V. Carmer's V equals 0 when there is no relationship between the two variables, and generally has a maximum value of 1, regardless of the dimension of the table or the sample size (Gingrich, 2004).

Given the small sample we have, an indication of how confident we can be with our findings will be shown by using statistical significance indicators. The convention among most business researchers is that the maximum level of statistical significance that is acceptable is $p < 0.05$ (Bryman and Bell, 2011). In our analysis the statistical significance is shown as:

Table 27. Degree of significance

Values	Degree of significance
0.005- 0.11	*
0.01- 0.05	**
0-0.01	***

Source: own elaboration

- ***Reduction of dimensions: correspondence analysis***

Correspondence analysis is the equivalent of principal component analysis for categorical data. The method reduces the dimensionality of the points by projecting them onto a subspace, usually a two-dimensional plane. The method's use for multidimensional graphical display has proved to be very popular in research areas where large (and sometimes sparse) sets of categorical data are collected, in particular linguistics, the social sciences, ecology, archaeology, marketing research, and genomics (Greenacre, 2010). For this research, we will use the multiple correspondence analysis (MCA) as we will be working with more than two categorical variables. In fact, to simplify the analysis, instead of analysing variables, we will analyse already created KMean cluster variables (QCL). Multiple correspondence analysis (Greenacre, 2010) is an exploratory technique to identify and visualize the relation(s) between variable values. This analysis is also called HOMALS (homogeneity analysis by means of alternating least squares) when it describes the relationships among two or more nominal variables in an space of few

dimensions that contains the categories of the variables as well as the objects associated to those categories (Perez, 2004: 260). It relates categorical variables and analyse their interdependencies.

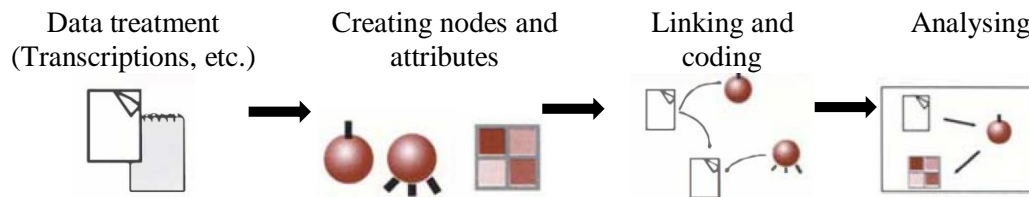
The Cronbach Alpha shows how the latent variables of each dimension are correlated. The total variance in correspondence analysis is measured by the so-called inertia (Greenacre, 2010). In simple terms, the inertia is the dispersion of the categories of the model, which is measured in terms of distance. The higher dependency among variances, the higher the inertia is. Besides, the autovalues measure the relationship between the punctuations of rows and columns and they are interpreted as correlation coefficients. The contribution of the objects shows how each company/ case is contributing to the inertia of each of the dimensions. The discrimination measures show the contribution of each of the variables to explain those 2 dimensions. The joint plot of category points shows the coordinates of each category in each dimension. This way we can analyse which categories are similar for each variable.

The application of this statistical analysis will allow us to obtain a typology of individuals/ companies/ groups based on a notion of similarity, so the more number of commonalities that the individuals have, the closer they will be from each other.

5.5.3 Qualitative data analysis

Qualitative data refers to all non-numeric data or data that has not been quantified and can be a product of all research strategies (Saunders *et al.*, 2015). As mentioned previously, the main qualitative data on our research was collected by questionnaire 4 (interviewer administered structured questionnaire about cluster effect”) and the one-to-one face-to-face interviews conducted to answer the research question related to social capital. We used QSR NUD*IST Vivo (NVivo), which is a software for aiding qualitative data analysis. The following chart shows the process of our qualitative data analysis:

Figure 30. Qualitative data analysis process



Source: own elaboration

The software provided tools for manipulating text transcripts and audio files, coding text, creating and organizing code categories and visualizing graphical representations. It proved to be effective in organizing the researchers' work, simplifying the process and in enhancing the validity of the findings.

- ***Data treatment***

One of the characteristics of qualitative research is the large amount of information that the researcher obtains (Álvarez- Gayou, 2003; Miles and Huberman, 1994). Interview data should be treated as narratives through which actors describe their world (Silverman, 2000). This approach allows for analysis through which actors or observers generate accounts of their world, while substantiating their claims and allowing the reader's interpretations to emerge. For this purpose, the audio-recorded interviews were transcribed verbatim. Considering that it takes a touch typist between six and ten hours to transcribe every hour of audio-recording (Saunders *et al.*, 2015), the researcher spent a considerable time on this task. Some interviews were transcribed in Spanish, some in Basque and others in English. Initial analysis was based on translating all the data into English to maintain face validity and be able to identify similar phrases and code the data. Capital or bold letters were used to distinguish the participant and the interviewer.

- ***Categories and codes***

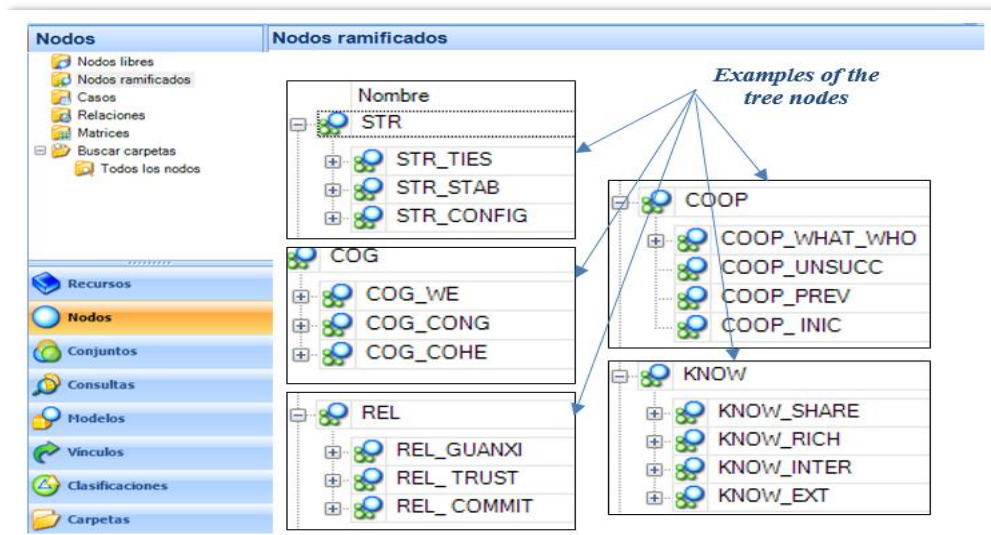
NVivo provides a range of tools for handling rich data records and information about them for browsing and enriching text, coding it visually or at categories,

annotating and gaining accessed data records accurately and swiftly (Richards, 1999).

In Nvivo coding is accomplished through nodes. 'Coding' data is a way of gathering all the references to a specific topic, theme, person or entity (QSR, 2015). You can code all types of sources and bring the references together in a single 'node'. A node is defined as “a collection of references about a specific theme, place, person or other area of interest (Bryman and Bell, 2011). The use of this software allows the researcher make sure that the quotes under each category are coded under the relevant node(s).

When a document has been coded, the node will incorporate references to those portions of documents in which the code appears. Tree nodes imply connections between nodes (free nodes). Categories are codes or labels that are used to group the data (Saunders *et al.*, 2015). We used tree nodes to group data into categories. For this, we based on theory, for example creating a category/ three node called “structural”, referring to the structural dimension of social capital. The description of the nodes is shown in Appendix 9.

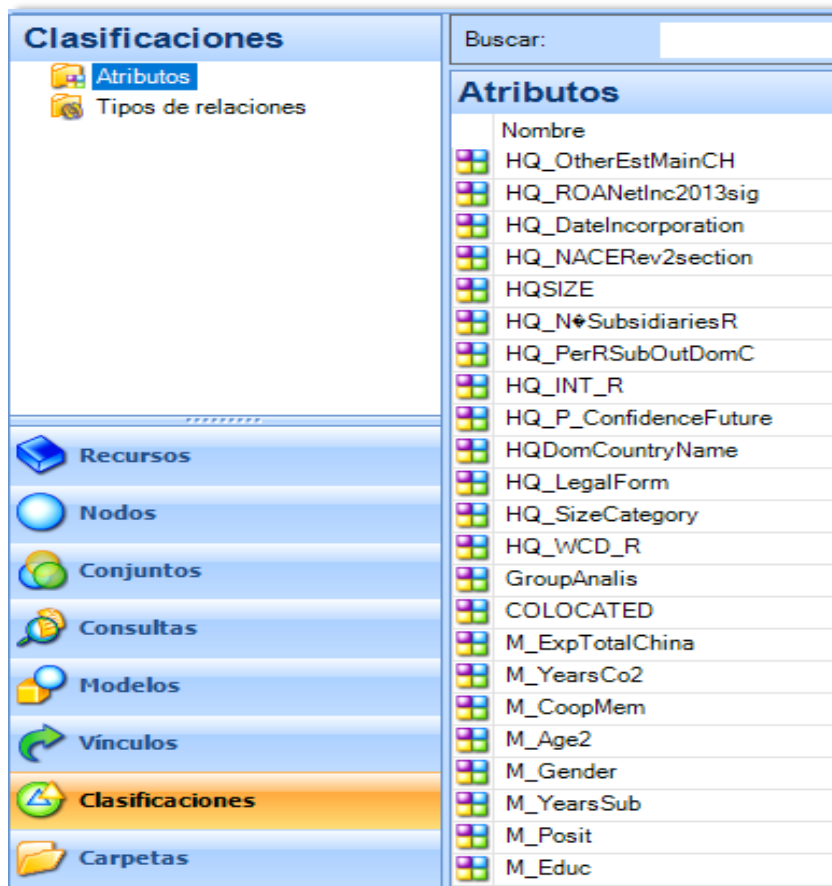
Figure 31. Example of tree nodes in Nvivo



Sources: own elaboration from Nvivo 8

The attributes of the firms, subsidiaries and managers were imported from SPSS as (.txt) files and included into the classification section of Nvivo.

Figure 32. Example of attributes in Nvivo



Sources: own elaboration from Nvivo 8

- **Analytical process**

Once the codes and attributes were created, the data had to be linked to those nodes. “Unitising” data is the analytical process where relevant “bits” of data are attach to the nodes. A unit of data may be a number of words, a sentence, a number of sentences, a complete paragraph or some other textual data that fits the category.

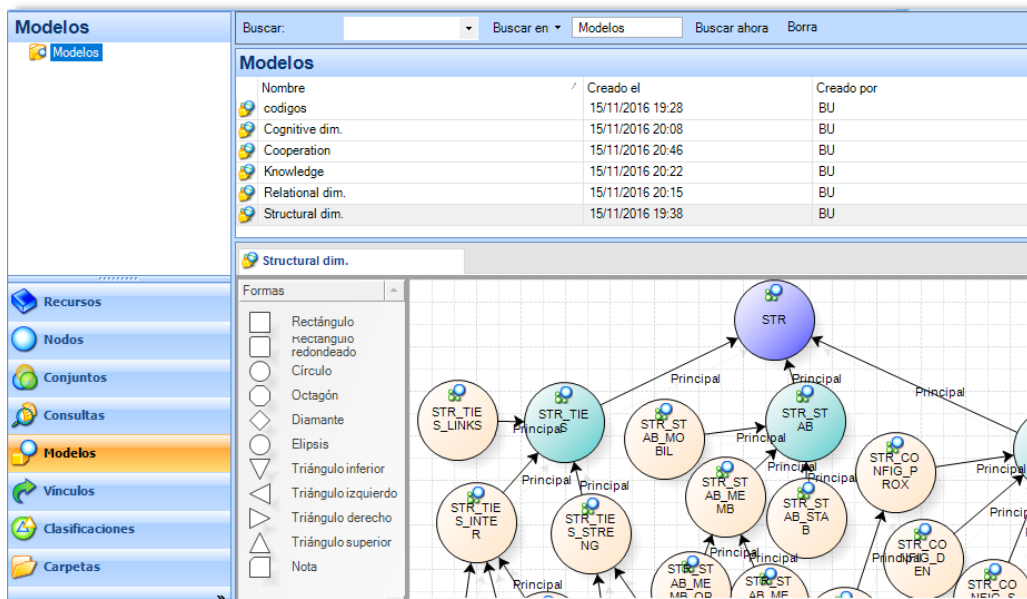
Yin (1994) presented two analytic strategies for general use: One is to rely on theoretical propositions of the study, and then to analyse the evidence based on those propositions. The other technique is to develop a case description, which would be a framework for organizing the case study. We used mainly a deductive qualitative analysis approach, in which the transcripts were coded based on predefined rather than emerging categories. The reduction of the

number of categories involves some subjective judgement but it is essential to group categories into themes.

Yin (1994) describes different analytical procedures for qualitative analysis. Within the theoretically based procedures we find the *pattern-matching* and the *explanation building*. Pattern-matching essentially involves predicting a pattern of outcomes based on theoretical propositions to explain what you expect to find. First, a conceptual framework is defined and then the adequacy of the framework to explain the findings is tested. In the explanation building procedure the idea is to build an explanation while collecting data and analysing it, rather than testing a predicted explanation (Saunders *et al.*, 2015). Following the pattern matching logic recommended for case study design, pieces of information from the cases were compared with the theory to determine the degree to which they were consistent (Miles and Huberman, 1994).

As Sinkovics *et al.* (2008) argued, the use of formalised software-based procedures should be used for the analysis and interpretation of textual interview data. The data analysis process was facilitated by the formal, structured and computer-assisted method (Sinkovics *et al.*, 2005) using QSR NVivo (Gibbs, 2002). Computer-assisted qualitative data analysis software provides procedural advantages which can enhance the trustworthiness of qualitative research (Sinkovics *et al.*, 2008). Categories (Gioia *et al.*, 2013) and codes (Van Maanen, 1988) were represented in conceptual maps so as to better analyse the content (see Appendix 9 and Appendix 10) This is done through the “models” function of Nvivo.

Figure 33. Creating conceptual maps of the nodes



Source: own elaboration from Nvivo 8

To present the findings we used narratives. A narrative is defined broadly as “an account of an experience that is told in a sequenced way, indicating a flow of related events that, taken together, are significant for the narrator and which convey meaning to the researcher” (Coffey and Atkinson 1996, in Saunders et al., 20015: 198). Verbatim quotations offer readers greater depth of understanding, as words show the strength of the participants’ views. We present within-case cross-unit analysis. As suggested by Miles and Huberman (1994) and Eisenhardt (1989) we looked for the presence of constructs across units within the case and identify similarities and differences. As other authors (Graebner, 2004, 2009), we presented verbatim illustrative quotes as findings that classified into different dimensions and combined with the description of key facts, and inclusion of charts and tables facilitate the understanding of the case.

- **Research quality**

As described earlier the triangulation of sources is done by collecting data from primary and secondary sources (interviews, company reports, factory visits, etc.). Having collected data from all the general managers of the park ensures the use of multiple informants.

Yin (2009) presents the case study protocol as a major component in asserting the reliability and internal validity of the case study research. It contains more than the survey instrument, it should also contain procedures and general rules that should be followed in using the instrument. According to Yin, it should contain the following sections:

- An overview of the case study project (objectives, issues, topics being investigated)
- Field procedures (credentials and access to sites, language pertaining to the protection of human subjects, sources of data)
- Case study questions (specific questions that the investigator must keep in mind during data collection, the potential sources of information for answering each question)
- A guide for case study report (outline, format for the data, use and presentation of other documentation, and bibliographical information)

The overview should communicate to the reader the general topic of inquiry and the objective of the case study. The case study questions should remind the researcher which data should be collected to answer the research queries. Both the overview and the questions are defined along with the research questions section.

The case study protocol included a brief report sent to interviewees with an introductory letter about the researcher, aim and importance of their participation, as well as a summary about the conceptual framework, research questions, and methodological aspects such as research approach, unit of analysis, place of research, sample, intended data collection and analysis, or validity and reliability.

The prolonged stay in the research setting, document analysis or the relationship maintained with the interviewees could also be considered as techniques that look for reliability check and credibility. In following steps the interviewees will also double check the quotations taken for the research paper. Construct validity was satisfied by including multiple sources of evidence.

CHAPTER 6: ANALYSIS AND RESEARCH FINDINGS

Section 6.1 focuses on the general environment where we will analyse the challenges that the subsidiaries face in China (research question 1). Section 6.2 will deal with the externalities and benefits that the COO agglomeration, where we will analyse the effect of their colocation mode (research question 2). Section 6.3 is linked to the qualitative analysis on social capital (research question 3).

6.1 Challenges and liabilities in China

Within this section, we will focus on an analysis of the general environment in China to answer the following research question:

1. Which challenges are the subsidiaries facing in China as a result of the business environment and practices there? Do they differ among subsidiaries?

The question given to the interviewees to analyse this research question was:
To what extent is your subsidiary in Kunshan facing these challenges? Please evaluate from 1 to 5 the level (1: Not at all/ 2: To a limited extent/ 3: Not sure/ 4: To a certain extent/ 5: To a large extent)

We analyse the perception that the firms have regarding the following challenges (6 constructs):

- 1 - External challenges (8 variables)
- 2 - Management challenges (6 variables)
- 3 - HR related challenges (8 variables)
- 4 - Regulations and government related challenges (8 variables)
- 5 - Competition challenges (5 variables)
- 6 - Market challenges (5 variables)

We will perform a descriptive analysis of these perceptions using average value comparison and contingency tables. Contingency table analysis will include both the variables within each of these 6 constructs and the K-mean

cluster that summarizes each construct. The summary of contingency tables can be found in appendix 13.

6.1.1 General view on challenges

To have a general view on the challenges faced in China by our sample firms, we will analyse the difference among firms by using 3 types of analysis: a) comparison of average values for each construct; b) contingency tables of Kmean variables that summarize each construct; c) multiple correspondence analysis that summarized the characteristics of the firms.

To detect whether these challenges differ among subsidiaries we analysed these differences in terms of:

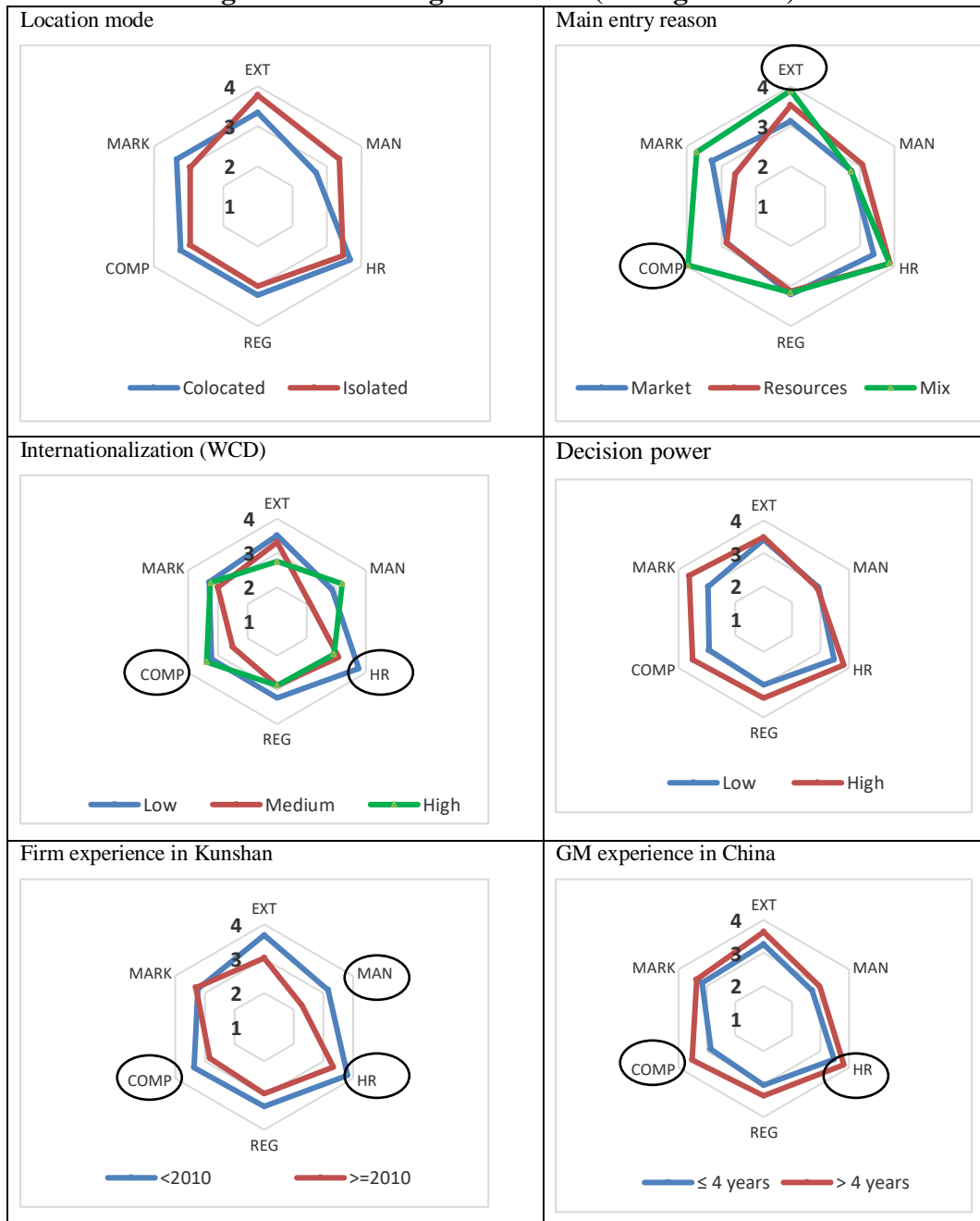
- 1) The subsidiaries colocation mode
- 2) Main entry reason in China
- 3) The firms' degree of culturally diverse internationalization
- 4) Subsidiaries' decision power
- 5) The firms' experience in Kunshan
- 6) General managers' experience in China

To simplify multiple correspondence analysis, the differences and characteristics will be grouped by:

- 1) The subsidiaries colocation mode and main entry reason in China (entry status)
- 2) The firms' degree of culturally diverse internationalization and subsidiaries' decision power (transnational view)
- 3) The firms' experience in Kunshan and managers' experience in China (contextual experience)

We analysed the punctuations given by the managers by the average values (figure 34) where we indicate which variables have statistically significant results.

Figure 34. Challenges in China (average values)



Source: own elaboration

Considering all the challenges, the main difference is related to management challenges. We can see that the firms with more difficulties in this area are the isolated firms, resource-seeking firms, firms with high culturally distant internationalization and firms that are more experienced. However, the contingency analysis about the relationship between independent and control variables showed that there was an association among main entry reason (independent) and firm experience (control). We noticed that resource-seeking

firms with more experience were higher than expected. Therefore, the influence of entry reason on the level of challenges could be influenced by the experience that the firm has in China.

If we look at colocation mode, we can see that collocated firms face stronger market, competition, regulation and HR related challenges, while isolated firms are more concerned about external and management related challenges. The main challenging area is HR (3,7/5) for collocated firms, and external (3,8/5) for isolated firms. However, we did not find significant findings that associate location mode with general challenges.

Table 28. Adjusted residual values: Challenges (general) - main entry reason

Main entry reason		reason			V de Cramer	Sig. approx.
		Market	Resou rces	Mix		
		Adjusted residual				
External challenges	High	-2,1	,9	1,5	0,432	0,106 *
	Low	2,1	-,9	-1,5		
Competition challenges	Low	2,1	,1	-2,4	0,518	0,040 **
	High	-2,1	-,1	2,4		

Source: own elaboration

When considering the external challenges in general (K-mean variable), market seeking firms that think they had high external challenges were lower than expected (-2,1), and those with low external challenges were higher than expected (2,1).

In general terms, market-seeking firms that find low competition challenges are higher than expected (and lower than expected for high competition challenges). In the opposite side, we have higher than expected firms with mix entry reasons that have high competition challenges (lower than expected if competition challenges are low).

According to the average values, market and resource seeking firms find HR their main challenge while firms with mix reasons find competition the main challenge. It seems that regulation challenges are higher for market seeking firms (3,2/5), managerial (3,1/5) and HR (3,9/5) challenges are higher for

resource seeking firms, while external (3,9/5), competition (4/5) and market (3,7/5) challenges are higher for firm with mix reasons.

Table 29. Adjusted residual values: Challenges (general) - Internationalization

Internationalization (WCD)		Low WCD	Medium WCD	High WCD	V de Cramer	Sig. approx
		Adjusted residual				
HR Challenges	High	2,5	-,9	-2,6	0,568	0,021**
	Low	-2,5	,9	2,6		

Source: own elaboration

A general view on HR challenges (K-mean variable) shows that firms with low culturally distant internationalization think that HR challenges are high to a higher level than expected. In the opposite way, the firms with high level of internationalization that believe that HR challenges are low are higher than expected.

In terms of competition challenges, there is a slight significance (0,101) but the adjusted residual values do not show strong evidence of that association ($\pm 1.9 < 1.96$ for medium WCD).

We also compared the average values of the firms with different degree (low, medium or high) of culturally distant internationalization (measure by the variable WCD) for each construct on the challenges faced in China. We can see from the second figure, the firms with lower culturally distant internationalization suffer higher challenges than firms with more culturally distant internationalization. The exception would be management and competition related challenges, where firms with high WCD. If we look at the extreme levels of WCD, firms with higher culturally distant internationalization find market challenges the main challenging area (3,25/5) while firms with lowest culturally distant internationalization find HR the most challenging area (3,76/5).

The decision power does not seem to be a variable that determines the level of challenges of the subsidiaries. For both high and low decision power subsidiaries, HR is the main challenge. In general, all the challenges are higher

for subsidiaries with higher decision power, except for management challenges.

Table 30. Adjusted residual values: Challenges (general) - experience in Kunshan

Experience in China (estab.date)		<2010	>=2010	V de Cramer	Sig. aprox
		More exper.	Less exper.		
		Adjusted residual			
Management challenges	Low	-2,3	2,3	0,467	0,022 **
	High	2,3	-2,3		
HR Challenges	High	2,7	-2,7	0,547	0,007 ***
	Low	-2,7	2,7		
Competition challenges	Low	-2,3	2,3	0,467	0,022 **
	High	2,3	-2,3		

Source: own elaboration

Considering the Kmean variable about management challenges in general, experienced subsidiaries that evaluated this group of challenges as low were lower than expected (adjusted residuals $-2,3 > 1,96$). The opposite is shown for subsidiaries with lower Kunshan experience that established there after 2010.

HR challenges in general (K mean variable) are perceived high at a higher extent than expected for firms with more experience, established before 2010 (adjusted residuals $2,7 > 1,96$) while it was perceived low to a higher extent for those with less experience ($-2,7 > 1,96$). The opposite is shown for subsidiaries with lower experience that established in Kunshan after 2010 (adjusted residuals $-2,7$ and $2,7$ for high and low HR challenges respectively). Average values about establishment date shows that firms with less experience in Kunshan (established in 2010 or after) perceive fewer challenges, except for market challenges. Both subsidiaries with more and less experience in Kunshan find HR the most challenging area (3,81/5 and 3,33/5 respectively).

Subsidiaries with low competition challenges (Kmean variable) show higher than expected frequencies if they are experienced firms (adjusted residuals $2,3 > 1,96$) and they show lower than expected frequencies if they established in China later than 2010 (adjusted residuals $-2,3 > 1,96$). The opposite happens for firms with high competition challenges, experienced subsidiaries show

lower than expected frequencies while less experienced subsidiaries show higher than expected frequencies (adjusted residuals -2,3 and 2,3 respectively).

Table 31. Adjusted residual values: Challenges (general) - GM experience in China

Manager experience in China		≤ 4 years Less experience	> 4 years More experience	V de Cramer	Sig. Approx.
		Adjusted residual			
Competition	Low	2,6	-2,6	0,540	0,008*
	High	-2,6	2,6		

Source: own elaboration

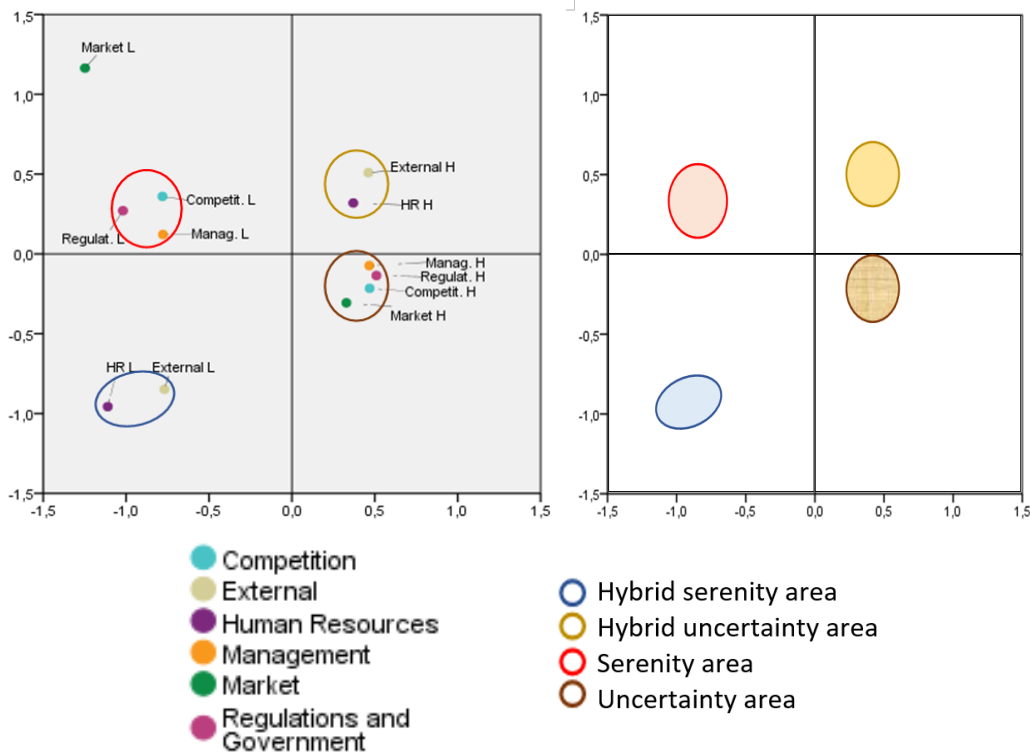
Although in general HR challenges show some association with the management experience in China (sig. 0.098) this relationship is not strong enough to draw any significant relationship (adjusted residuals $< \pm 1.96$).

This experience that managers have in China is associated with competition challenges at a high significant level. Less experienced managers that believe that competition challenges are low are higher than expected (less than expected for high classification). The opposite happens for more experienced managers.

In terms of average values, both experienced and less experienced managers think that HR is the area where they have more difficulties. In general, managers with more experience in China have higher challenges.

Besides the average value and contingency tables, we conducted multiple correspondence analysis to analyse the association among variables. For this analysis, we used the created conglomerates through K-means methodology to analyse 6 types of challenges.

Figure 35. Joint plot of category points: Areas of uncertainty

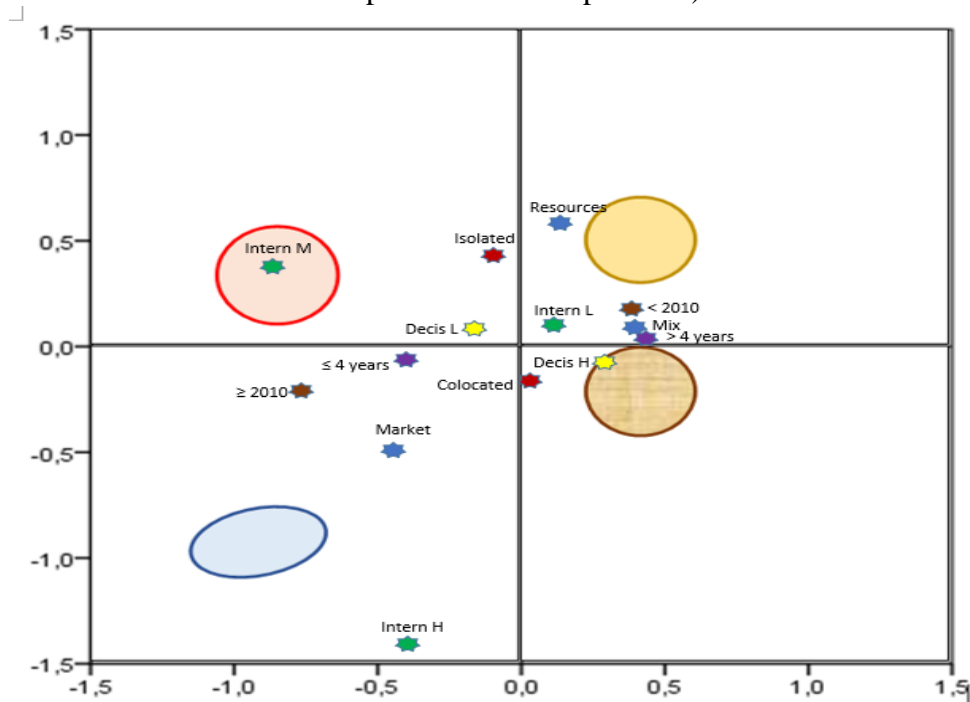


Source: own elaboration

If we just look at the challenges (figure 35) we can distinguish 4 main areas. The red area (serenity area) is where competition, management and regulation challenges are low. In the opposite quadrant, (uncertainty area) management, regulation, competition and market challenges are high. The yellow area is where external and HR challenges are high and in the opposite side the blue area shows low external and HR challenges.

Taking these 4 areas as a base, and considering all the elements of analysis, we can see that the uncertain area is closer mainly to collocated subsidiaries, with high decision power, with managers that have more than 4 years' experience in China. The serenity area includes firms with medium level of internationalization and resource-seeking firms are closer to higher external and HR challenges.

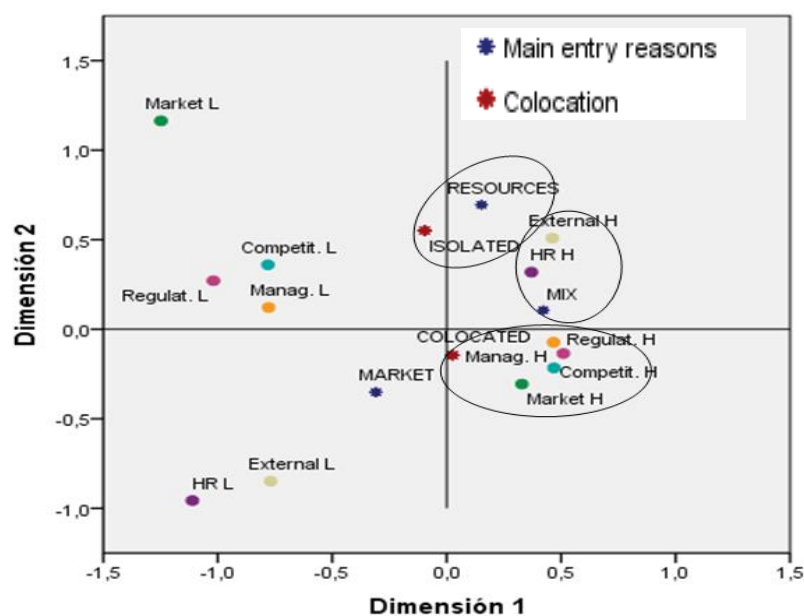
Figure 36. Joint plot of category points: General view
 (Challenges- colocation- entry reason- WCD- Decision power- Subsidiary experience- GM experience)



Source: own elaboration

We will look closer at 3 models of analysis (entry status, transnational view and contextual experience). These models of the analysis (appendix 13) explain, with 2 dimensions, 60,7% of the total variance.

Figure 37. Joint plot of category points: Entry status
 (Challenges- colocation- entry reason)



Normalización principal por variable.

Source: own elaboration

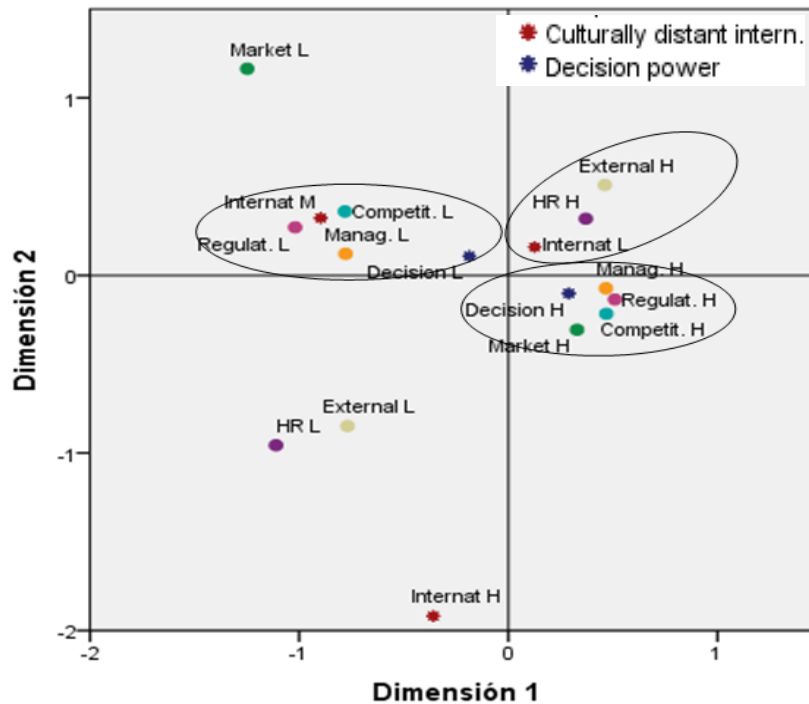
Dimension 1 is mainly discriminated by management, regulations and competition challenges, while dimension 2 is discriminated by colocation status and external challenges. From the graph, we can also see that dimension 1 mainly discriminates by the degree of challenges. The right hand side of the graph (positive values) is mainly compound by high challenges while the left hand side of the graph (negative values) by low challenges.

We expected that the COO cluster would provide a protective umbrella and that as an effect of that, co-located firms could perceive fewer liabilities in the host country. However, we found higher challenges for colocated firms. The average values show that colocated firms have less management and external challenges but correspondence analysis shows that colocated firms are associated to high management challenges, as well as higher difficulties on regulatory, competition and market issues. This may be due to the small number of firms in the sample and high variance of the responses about this construct.

Colocated firms are proximate both to market and mix entry reasons. Isolated firms show quite a clear tendency to have resource-seeking firms. We should however keep in mind that contingency tables showed an association between the variables colocation status and entry mode (number of isolated firms with resource seeking reasons were higher than expected). These firms (isolated-resource seeking) do not show a clear association evidence about challenges, although they are proximate to high levels of external and HR challenges, which could be also associated to firms with mix entry reasons. Average values also showed that resource-seeking firms had low market challenges but this is not clearly shown in the correspondence analysis.

In terms of entry reasons, market-seeking (associated with less experience) firms have less external and competition challenges (significant) and high HR and low management challenges (average values). However, these trends are not shown clearly through the correspondence analysis.

Figure 38. Joint plot of category points: Transnational view
(Challenges- firm internationalization- subsidiary decision power)

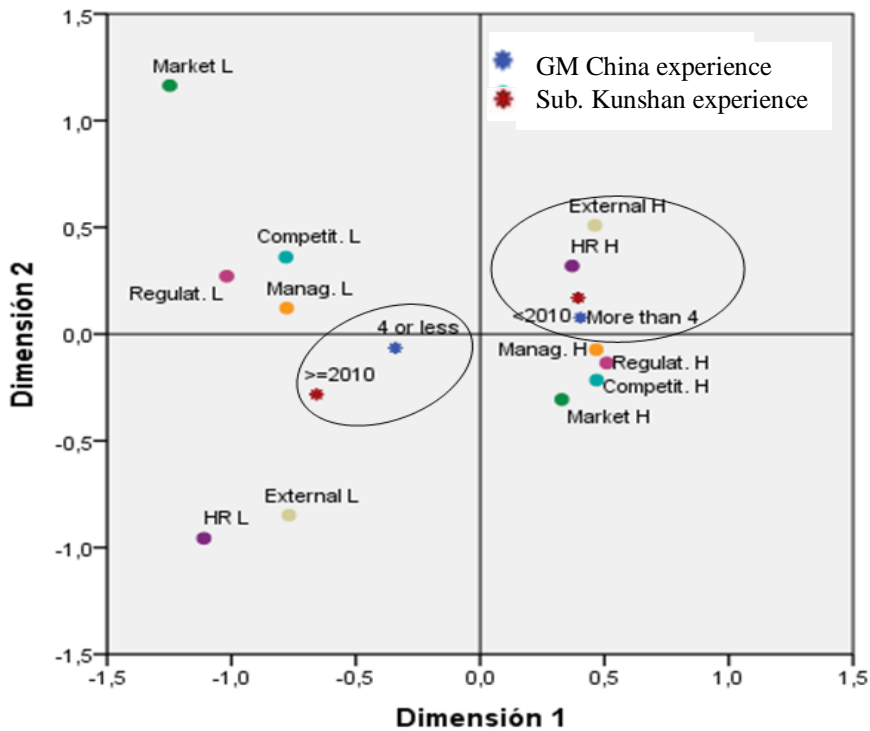


This analysis shows that dimension 1 is discriminated by management, regulatory and competition challenges and a bit by the subsidiaries' decision power too. It also discriminates low and high challenges quite clearly. Dimension 2 discriminates external challenges and to some extent, the level of culturally distant internationalization of the firms.

Firms with high decision power have higher challenges on management, regulations, competition and market issues. Firms with low international level have high external and HR challenges. This two groups could be also grouped (at the right hand side of the graph) if we look at the discrimination of dimension 1. Firms with medium degree of culturally distant internationalization show lower level of challenges (especially on management, regulations and competition) and are associated with subsidiaries with lower decision power.

Figure 39. Joint plot of category points: contextual experience

(Challenges- firm experience Kunshan- GM experience China)



Normalización principal por variable.
Source: own elaboration

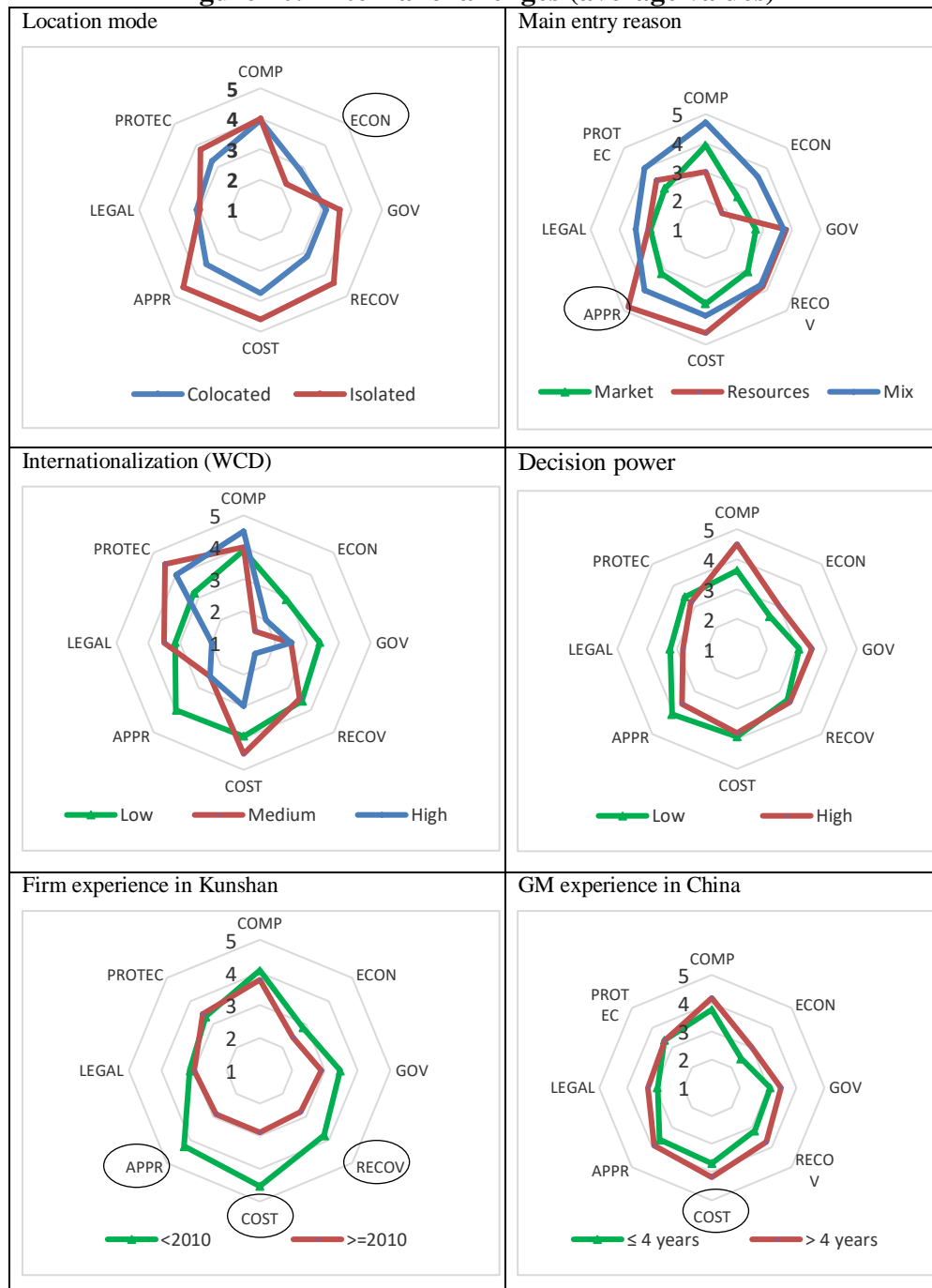
This plot also shows a discrimination on management, regulations and competition for dimension 1. Data about experience of the firms and managers is also better discriminated by this dimension. As in the previous plot, this dimension also discriminates between high (positive values) and low (negative values) level of challenges. Dimension 2 does not discriminate any category clearly, although differences on external challenges are better discriminated by this dimension.

Firms with more experience in Kunshan (established before 2010) are associated with managers that also have more experience in China. However, even if they have that experience, they face high external and HR challenges. Firms and managers with less experience are also associated to each other but they do not show a clear association with any challenge.

6.1.2 External challenges

The descriptive analysis of the average values of external challenges can be represented as follows (where we indicate which variables have statistically significant results):

Figure 40. External challenges (average values)



Source: own elaboration

The data does not show much significant association when it comes to find statistically significant results associations between the external challenges and their location mode (collocated/ isolated), except for one variable (Table 32). Collocated firms' count for the consideration "economy slowdown in China (ECON) is not at all a challenge" is lower than expected, while for isolated firms is higher than expected (being adjusted residuals $\pm 2,9 > 1,96$). The same thing happens for the consideration "economy slowdown in China (ECON) is, to a large extent, a challenge" ($\pm 2 > 1,96$). This is surprising, as it does not clarify whether collocated firms perceive higher or lower challenges related to the economic slowdown in China.

Table 32. Adjusted residual values: external challenges- colocation

Colocation		Co-located	Isolated	V de Cramer	Sig. Approx.
		Adjusted residual			
Econ. China (ECON)	Not at all	-2,9	2,9	0,788	0,005 ***
	Not sure	-,2	,2		
	Large extent	-2,0	2,0		

Source: own elaboration

If we look at the average values of variables related to external challenges we can see that collocated firms have less external challenges except form the Economy slowdown in China (ECO), which they considered a higher challenge than isolated firms do. For collocated firms fierce competition (COMP) is the most relevant challenge (3,9/5) while for isolated firms rising raw material cost (COST) and the RMB appreciation (APP) are the highest (4.6/5).

Regarding entry reasons (Table 33), market seeking firms that evaluated RMB appreciation as a limited challenge were more than expected (adjusted residuals 2,2), while those evaluating that factor as a large scale challenge were fewer than expected. (adjusted residuals -3). On the opposite side, resource seeking firms that evaluated that factor as a large challenge were more than expected (2,2).

Table 33. Adjusted residual values: external challenges- main entry reason

Main entry reason		Market	Resources	Mix	V de Cramer	Sig. approx.
		Adjusted residual				
RMB appr. (APPR)	Limited extent	2,2	-1,1	-1,4	0,559	0,059 *
	Large extent	-3,0	2,2	1,3		

Source: own elaboration

Fierce competition (COM) is the highest external challenge for market seeking firms and firms with mix entry reasons, while RMB appreciation (APPR) seem to be the most worrying factor for resource seeking firms. Market seeking firms are the ones that experience less external challenges. For resource-seeking firms the challenges are concern with government policies (GOV), recovery of global economy (RECOV), rising material cost (COST) and appreciation (APPR). Firm with mix reasons find fierce competition (COM), economy slowdown (ECON), legal environment (LEGAL) and local protectionism (PROTECT) as the most challenging external factors.

The level of culturally distant internationalization (WCD) does not show statistically significant associations. If we look at the average values of WCD, we can see that firms with lower culturally distant internationalization perceive higher challenges in terms of the economic slowdown in China (ECO), government policies (GOV), and RMB appreciation (APP). Firms with medium level of culturally distant internationalization perceive rising of raw material (COST) and local protectionism (PRO) higher challenges. Firms with high culturally distant internationalization show that their main challenge is related to fierce competition (COM).

Regarding the decision power of the subsidiary, the highest challenge for low power subsidiaries is RMB appreciation (APPR) while for high power subsidiaries fierce competition is the biggest difficulty (COMP). Considering that, there is a tendency that high decision power subsidiaries are market-seeking firms, this result is consistent with the previous finding that states that fierce competition is the highest challenge for market seeking subsidiaries. Fierce competition, economy slowdown in China, Government policies and slow recovery of the global economy are bigger challenges for high power affiliates. Rising raw material cost, RMB appreciation, legal environment and local protectionism are higher challenges for low power firms.

Looking at the firms' experience in Kunshan (Table 34), firms that were not sure whether slow recover of global economy was a challenge or not were fewer than expected for experienced firms (-2,4) while higher than expected for

not that experienced firms (2,4). The number of respondents evaluating rising raw materials costs as a limited challenge were lower than expected for experienced firms (-2,4) and higher than expected for non-experienced ones (2,4). Those experienced firms that evaluated that factor as a large challenge were higher than expected and the opposite happens for non-experienced firms. A similar thing happens for the consideration of RMB appreciation as a large challenge.

Table 34. Adjusted residual values: external challenges- experience in Kunshan

Experience in Kunshan (estab. date)		<2010 More exper.	>=2010 Less exper.	V de Cramer	Sig. approx.
		Adjusted residual			
Global recov. (RECOV)	Not sure	-2,4	2,4	0,683	0,024 **
Rising cost (COST)	Limited extent	-2,4	2,4	0,752	0,009 ***
	Large extent	2,1	-2,1		
RMB appr. (APPR)	Large extent	2,9	-2,9	0,699	0,019 **

Source: own elaboration

From the average values we see that subsidiaries with more experience face higher challenges mainly in terms of RMB appreciation (APPR), slow recovery of global economy (RECOV) and rising raw material cost (COST), being the latest the highest challenge for them (4,53/5). Firms with less experience perceive that the highest challenge is related to the fierce competition in China (COMP) (3,78/5).

The association between the experience of the managers in China and the rising cost of raw materials is statistically significant. The less experienced managers that think that that is a high challenge are less than expected (more than expected for more experienced managers).

Table 35. Adjusted residual values: external challenges- GM experience in China

Manager experience in China		≤ 4 years Less experience	> 4 years More experience	V de Cramer	Sig. Approx.
		Adjusted residual			
Rising costs (COST)	Large extent	-2,4	2,4	0,605	0,07 *

Source: own elaboration

Average values show that those with more than 4 years of experience have higher external challenges. For them the main challenges are related to competition and raw material costs. Competition is also the main challenge for those with less experience.

In sum, external challenges include some of the most relevant difficulties of doing business in China, from economy, to politics, to legal or costs factors.

Opposite to what we expected, colocation does not affect, in significant terms, the level of external challenges perceived by the firms, except for the economic slowdown in China, which is perceived as significantly higher by clustered subsidiaries. China's growth rate has fallen from the historic double-digit rate to about 6-7%, which seem to concern these firms. This may not be that influential to isolated firms because they are not that focused on the market.

Market- seeking firms have significantly less external challenges and this is mainly due to RMB appreciation, which is significantly low for market-seekers but high for resource- seeking subsidiaries. Normally, the appreciation of the RMB is a matter of concern for firms that export more, as those exports get more expensive but it may benefit those with market seeking reasons, as the purchasing power of the Chinese could increase. Although not to a significant level and taking into account other challenges, firms with mix entry reasons are associated with the category of higher external challenges. Looking only at the external challenges, appreciation and rising costs are higher challenges for resource-seeking firms.

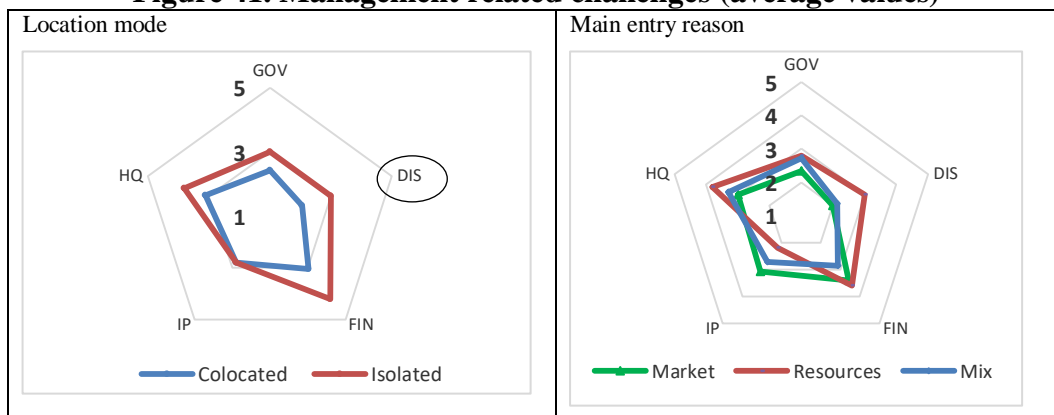
In general, most of the high external challenges are associated to firms with lower culturally diverse internationalization, but the association is not significant. Fierce competition however is perceived higher by firms with higher internationalization while other legal issues are perceived higher by firms with medium internationalization level. Although the theory suggest that firms with less international experience are more likely to choose equity modes, we do not see an association among the level of culturally distant internationalization and the entry status (location mode and entry reasons).

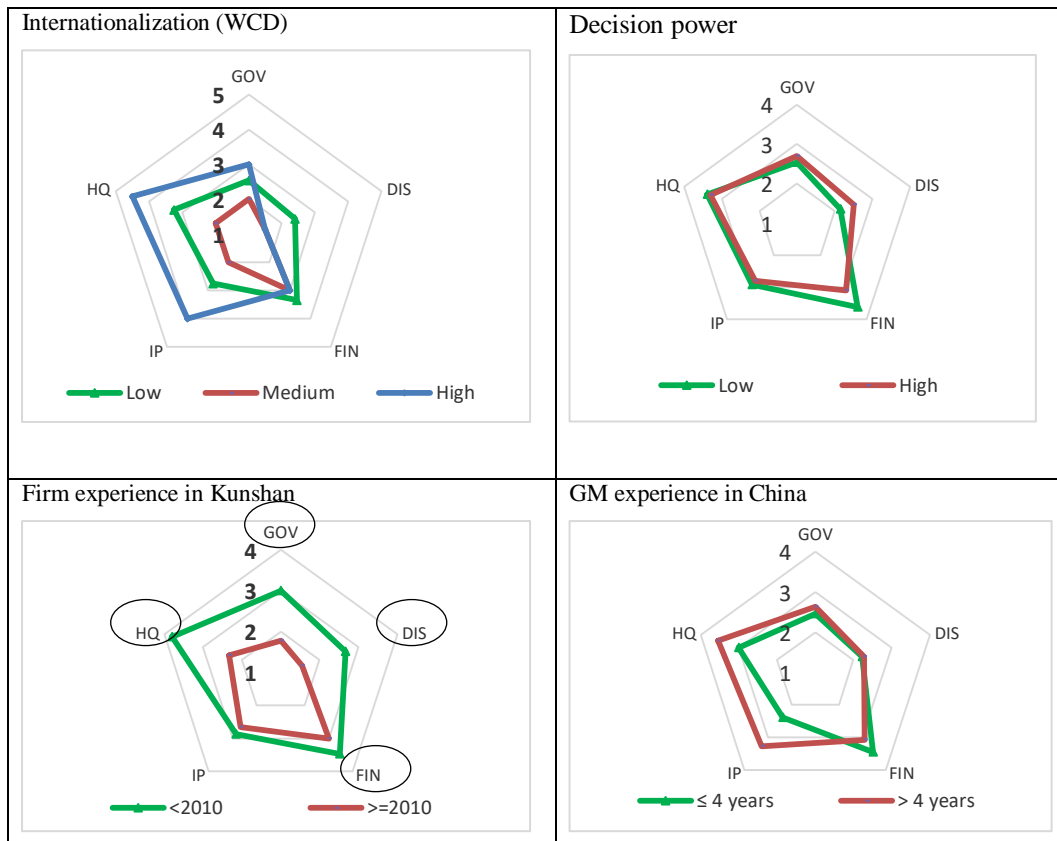
Higher external challenges are also associated to higher experience in the local setting. Firms with more experience in Kunshan seem to have managers with more experience in China. It could be that those managers have *grown* in China along with the subsidiary or that the more time the firms are in Kunshan the more aware they are about hiring managers with knowledge about how *doing business in China* works. More experienced firms have significant higher challenges facing the slow recovery of global economy, the rising raw material cost and the RMB appreciation, and experienced managers find more challenges on rising costs. Currently, formerly ‘low-cost’ regions are suffering from higher labour costs, higher raw materials costs, and decreased responsiveness and quality (Tate *et al.*, 2014). It is understandable that firms that were established or planned their establishment in China before the global financial crisis may have noticed a change in China in terms of costs or economic growth.

6.1.3 Management challenges

The descriptive analysis of the average values of management-related challenges can be represented as follows (where we indicate which variables have statistically significant results):

Figure 41. Management related challenges (average values)





Source: own elaboration

Within the management challenge, the significant result is linked to the consideration that “distribution problems (DISTR) are, to a certain extent, a challenge”, where collocated firms’ count is lower than expected and the opposite for isolated firms ($\pm 2,4 > 1,96$) (Table 32).

Table 36. Adjusted residual values: management challenges- colocation

Colocation	Adjusted residual	Co-located	Isolated	V de Cramer	Sig. Approx.
Distribution (DIS)	Certain extent	-2,4	2,4	0,506	0,105 *

Source: own elaboration

If we look at the average values, isolated firms show higher challenges on managerial issues (corporate governance, distribution, finance, and support from HQ). The exception is on IP infringement (IP), where both isolated and co-located firms have the same level of challenges. For both collocated and isolated firms finance related difficulties (FIN) and the support from HQ (HQ) are the most relevant challenges.

For market-seeking firms financial difficulties (FIN) are the main concern, while for resource seeking and firms with mix reasons the lack of support from the headquarters (HQ) seem to be the main concern. Resource seeking firms are the group with higher level of management challenges.

Interestingly firms with high culturally distant internationalization seem to have higher management challenges, especially on IP infringement (IP) and getting the support from head office (HQ). Firms with lower culturally distant internationalization have higher level of distribution challenges. Firms with medium culturally distant internationalization seem to be the firms that have less management challenges.

Firms with higher degree of autonomy find HQ support the highest management challenge while lower decision power firms see that financial difficulties are more challenging. In general lower power subsidiaries find more management challenges, especially on finance, IP and HQ support issues. Higher power subsidiaries have higher challenges on corporate governance and distribution.

Table 37 shows that the number of experienced firms that evaluated that corporate governance, distribution problems, financial difficulties and support from head office were not at all challenges for them were fewer than expected and higher than expected for less experienced firms.

Table 37. Adjusted residual values: management challenges- experience Kunshan

Experience in China (estab.date)		<2010	>=2010	V de Cramer	Sig. approx.
		More exper.	Less exper.		
		Adjusted residual			
Corp. Gov. (GOV)	Not at all	-2,7	2,7	0,602	0,033 **
Distribution (DIS)	Not at all	-2,2	2,2	0,521	0,089 *
Finance (FIN)	Not at all	-2,4	2,4	0,582	0,087 *
HQ support (HQ)	Not at all	-2,4	2,4	0,585	0,084 *

Source: own elaboration

Experienced firms that established in Kunshan before 2010 perceive that they have higher management challenges mainly on the support that they get from the corporate governance (GOV), distribution problems (DIS), and HQ support

(HQ), being the latest the management highest challenge for them (3,8/5). Firms with less experience in Kunshan perceive less management challenges, and the most challenging issue for them is the financial difficulties (FIN) (3/5).

Regarding the managers' experience in China, the average values of the punctuations show that more experienced firms have more challenges except for financial difficulties, that is higher and the main factors for less experienced managers. More experienced managers find the lack of support from headquarters as the main management challenge.

In sum, management challenges are not significantly influenced by colocation, but isolated firms seem to have significant higher distribution problems. Distribution problems could come from the lack of understanding with local distributors. Distribution reaching target clients and consumers in different areas of China proves to be a challenge for isolated firms. This may be due to the better infrastructure and connections that areas with a higher density of firms could offer. While average values show lower management challenges for collocated firms, correspondence analysis shows the opposite. This may be due to the small number of firms in the sample or the high variance of the responses. Both analysis are anyway different.

Average values consider all the punctuations (high and low all, measured from 1 to 5) and does not take into account other challenges. Correspondence analysis on the other hand is associating that specific category of "high management challenges" with many other characteristics, including all the different challenges (external, management, HR, etc.). Thus, overall we will consider that collocated firms have higher management challenges and are within a higher uncertainty area. As mentioned previously in the literature, co-ethnic clusters offer an investment environment that reduces MNEs' uncertainty in the market. Financial difficulties seem to be an important challenge for both collocated and isolated firms. This may be due to the difficulties they may find to access bank loans or the delicate financial situation of the firms after the global financial crisis.

Entry reasons does not significantly influence the level of management challenges. Within the perceptions on management factors, resource-seeking firms seem to have higher challenges but when taking into account other type of challenges we see that this is not that clear and that the category of high management challenges could be closer to firms with mixed or market entry reasons.

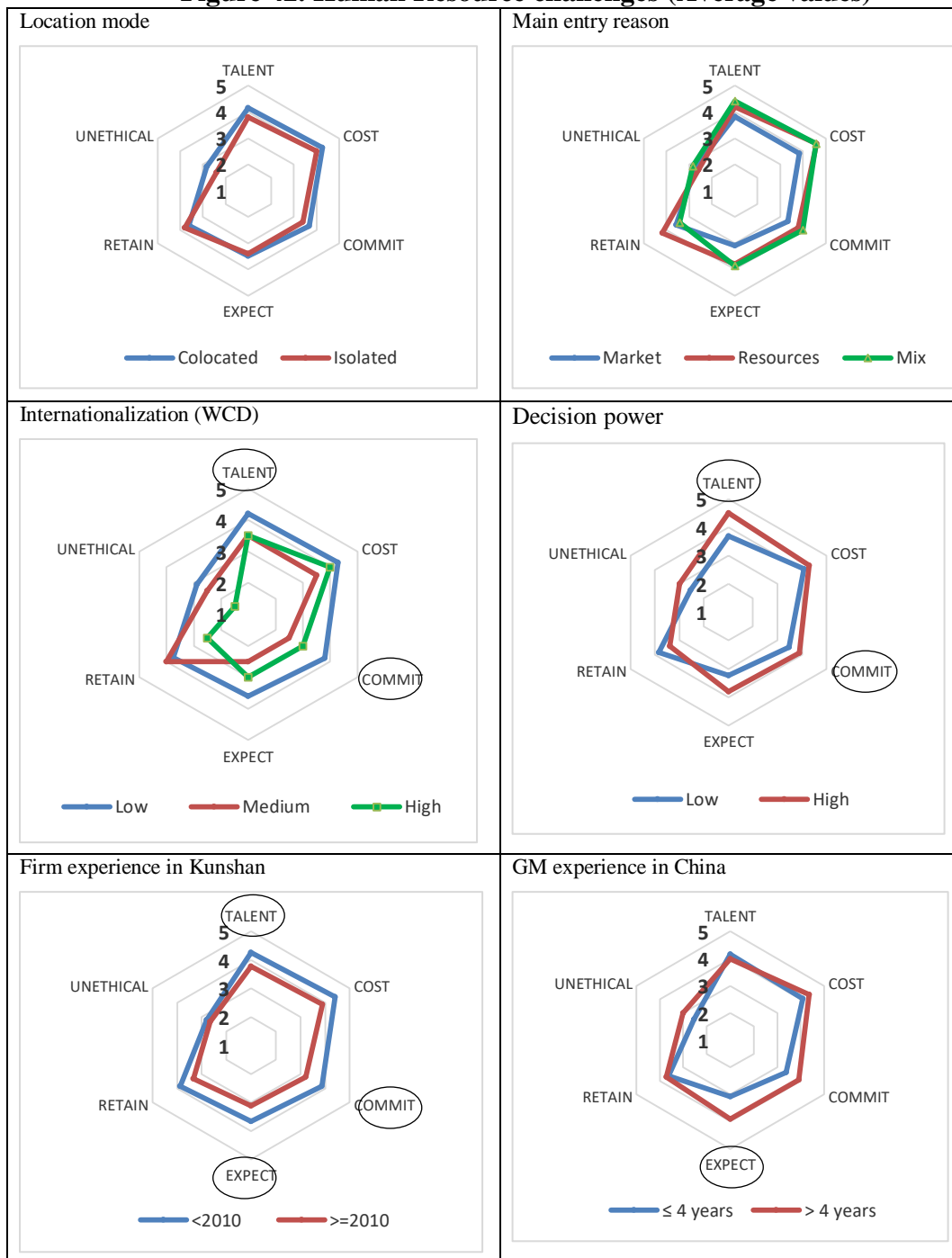
In terms of the transnational view analysis, there are not significant associations. Average values show that firms with medium level of culturally distant internationalization (WCD) seem to have lower management challenges while firms with higher level of WCD have higher management challenges, except for distribution and finance. Decision power or the experience of the manager in China does not have significant association with the level of management challenges.

What seems relevant to explain the heterogeneity on management challenges is the subsidiary experience in Kunshan as those with higher experience (established earlier in Kunshan) have higher management challenges. Foreign companies tend to have governance structures in place these systems already in place as compared to Chinese firms, but it seems that those established earlier are still facing some challenges in this area (could be related to setting up responsibilities among managers of the corporation, establishing rules and procedures to take decisions, etc.). Distribution problems are also higher for these firms. We may think that this is because these firms with more experience are more market-focused. However, the market-seeking firms are associated to subsidiaries establishing later in Kunshan. The lack of support from headquarters are the highest challenge for these experienced subsidiaries. It could be that, as these are firms with general managers that have higher experience in China, the communication with headquarters could be less intensive.

6.1.4 HR related challenges

The descriptive analysis of the average values of human resource-related challenges can be represented as follows (where we indicate which variables have statistically significant results):

Figure 42. Human Resource challenges (Average values)



Source: own elaboration

On average, HR is the main problematic area for co-located firms but both analysis groups (collocated/isolated) seem to have similar values. The differences show that costs challenges (COST) are the highest for collocated firms (4,3/5) while retaining employees (RETAIN) is for isolated firms (3,8/5). The lowest factor within this group is the unethical behaviour of employees (UNE).

Firms with mix entry reasons are the ones that faced more HR related challenges, except for rising labour costs (COST) and retaining employees (RET) that are higher challenges for resources-seeking firms.

As shown in contingency Table 38, firms with low cultural distant internationalization that evaluated finding and hiring talent and generating commitment and loyalty as limited challenges were lower than expected, while for the evaluation of those factors as being challenges to a certain extent, the opposite is true (more firms than expect). If we look at the other extreme of firms with high cultural distant internationalization, firms that are not sure about whether generating commitment and loyalty is a challenge were more than expected.

Table 38. Adjusted residual values: HR challenges- Internationalization

Internationalization (WCD)		Low WCD	Medium WCD	High WCD	V de Cramer	Sig. approx.
		Adjusted residual				
Talent (TALENT)	Limited extent	-2,5	1,7	1,7	0,418	0,078*
	Certain extent	2,4	-1,6	-1,6		
Commitment (COMMIT)	Limited extent	-2,3	3,4	-,3	0,621	0,018**
	Not sure	-2,2	,7	2,3		
	Certain extent	2,2	-1,5	-1,5		

Source: own elaboration

In term of average values, as opposite from the previous block of challenges, firms with lower culturally distant internationalization are the ones that perceive higher challenges in terms of HR issues, especially in terms of rising labour costs (COST) (4,3/5). Firms with medium level of culturally distant internationalization perceive retaining employees (RET) their main HR challenge. Firms with higher culturally distant internationalization as those with low WCD, find cost the main HR challenge (4/5).

The data about decision power (Table 39) shows that firms that have high decision power and evaluated generating commitment and loyalty of employees as a large challenge, are more than expected (the opposite happens for firms with low decision power). Finding and hiring talent, although it has significant results (V Cramer 0,450 and approx. Sig. 0,097), does not show adjusted residuals that are higher than 1,96.

Table 39. Adjusted residual values: HR challenges- decision power

Decision power of subsidiary		Low	High	V de Cramer	Sig. approx.
		Adjusted residual			
Commitment (COMMIT)	Large extent	-2,1	2,1	0,580	0,102 *

Source: own elaboration

As for the average values is concerned, rising labour cost is the most challenging factor for low autonomy firms, while finding and hiring talent is for high autonomy firms. All the HR challenges are higher for firms with higher degree of decision power, expect for retaining employees, which is a bigger challenge for firms with lower autonomy.

The next Table 40, finding and hiring talent, generating commitment and loyalty, and the unrealistic expectations that young people have, are to a certain level a challenge for firms with more experience at a degree that is higher than expected (and opposite for firms with less experience). The consideration that the first factor, finding and hiring talent is a limited challenge, is lower than expected for more experienced firms (and higher than expected for less experienced firms).

Table 40. Adjusted residual values: HR challenges- experience in Kunshan

Experience in Kunshan (estab.date)		<2010 More exper.	>=2010 Less exper.	V de Cramer	Sig. approx.
		Adjusted residual			
Talent (TALENT)	Limited extent	-2,4	2,4	0,586	0,016**
	Certain extent	2,4	-2,4		
Commitment (COMMIT)	Certain extent	3,0	-3,0	0,643	0,042**
Expectations (EXPECT)	Not sure	-2,2	2,2	0,564	0,054*
	Certain extent	2,6	-2,6		

Source: own elaboration

In terms of average values, HR challenges by experience in Kunshan show similar patterns for firms with more or less experience. Those established earlier in the country find slightly higher challenges. For both groups of subsidiaries established before and after 2010, the most relevant one is that of the rising labour costs (COST) (4,4/5 and 3,89/5 respectively).

Managers' experience in China show some association with HR challenges. The firms that are not sure about whether the young people have unrealistic expectations about work is higher than expected for less experienced firms and fewer than expected for managers that have been in China more than 4 years.

Table 41. Adjusted residual values: HR challenges- GM experience in China

Manager experience in China		≤ 4 years Less experience	> 4 years More experience	V de Cramer	Sig. Approx.
		Adjusted residual			
Expectations (EXPECT)	Not sure	2,0	-2,0	0,551	0,064*

Source: own elaboration

The average values on manager experience show that except for finding and hiring talent, the rest HR challenges are higher for experienced managers. The main HR challenge for less experienced managers is that of finding talent, while more experienced are more concerned about the cost of labour.

In sum, as for HR challenges is concerned, the main differences come from the level of internationalization and the subsidiary experience in the local setting. Less internationalized firms and those with higher experience in Kunshan have higher HR challenges, especially on finding talent and generating commitment of employees. It could be that employees are more attracted by firms that are more internationalized as they could offer longer career prospects, and that employees do not have a psychological bond with these kinds of organizations because they do not provide satisfactory conditions or build an affective linkage with the local employees. Although we may think that firms with more experience in Kunshan may have learnt on how to generate that commitment, the data does not support this idea. Subsidiaries and managers with more experience in the host location also perceived that it is difficult to fulfil the

expectations of the new generations. It could be that in the past they perceived less demands from their employees and that as generation Y accesses the labour market, this issue becomes more and more problematic.

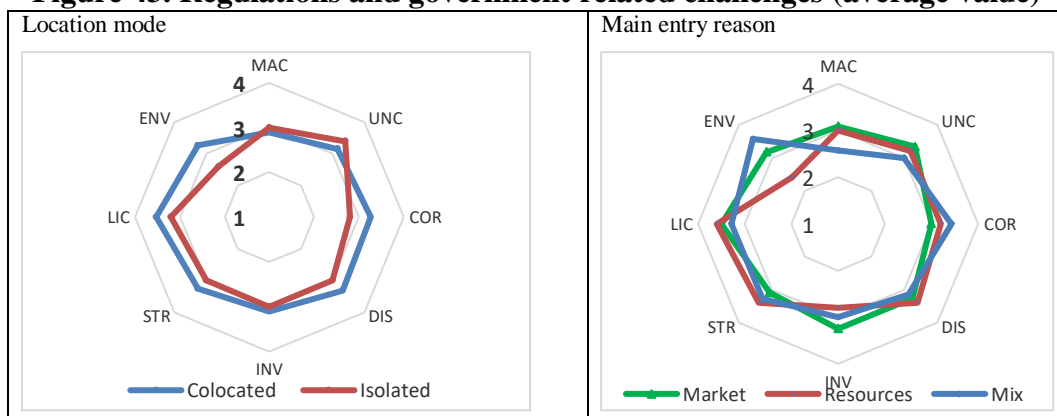
In general, colocation, entry reason, or the decision power of the subsidiary do not seem to be that influential to describe the heterogeneity of the manager perceptions. However, gaining the commitment and loyalty from employees is a higher challenge for firms with higher autonomy. It could be that the subsidiary may have a high decision power and responsibility on many areas but this makes it be less focused on its HR management.

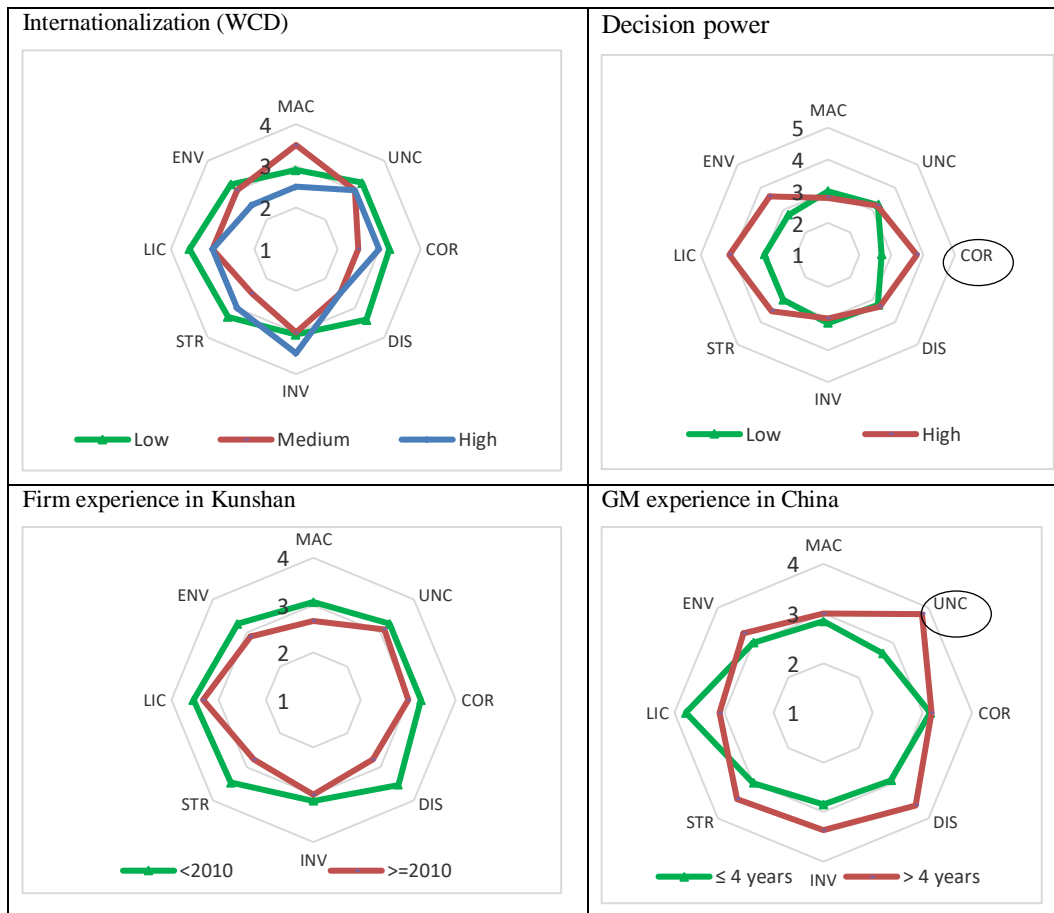
As mentioned before, firms considered that HR costs is one of the main challenges now in China. Wages in China are rising due to factor market rivalry, which occurs when firms compete for the same resources (Tate *et al.*, 2014). As demand for semi-skilled, adaptable labour has grown in China’s manufacturing core, the labour supply cannot keep up, causing wages to increase by 15%-20% a year (Sirkin *et al.*, 2011).

6.1.5 Regulations and government related challenges

The descriptive analysis of the average values of regulation and government related challenges can be represented as follows (where we indicate which variables have statistically significant results):

Figure 43. Regulations and government related challenges (average value)





Source: own elaboration

Colocated firms seem to perceive higher challenges on this area, except for those related to the macroeconomic policy adjustments (MAC) and unclear or changing regulations (UNC). For colocated firms obtaining required licences (LIC) is the highest concern (3,5/5) while for isolated firms unclear or changing regulations (UNC) is the highest (3,4/5).

In terms of entry reasons, all firms have similar level of regulation challenges. The most differentiated element could be that of environmental protection policies (ENV), that for resource seeking firms are not considered a challenge, but for firms with mixed reasons is the highest challenge they face.

In general firms with low WCD face more challenges in 6/8 (0,75%) of the challenges related to regulations and government. Firms with low culturally distant internationalization perceive that obtaining required licences (LIC) is their highest challenge on this area (3,5/5). Form firms with medium culturally

distant internationalization adjustments on macroeconomic policies (MAC) seem to be the most challenging area (3,5/5) while for firms with high culturally distant internationalization find governments' involvement in economy (INV) the highest challenge to face (3,5/5).

The contingency tables about decision power show that there is a significant relationship (V creamer 0,617 and approx. Sig. 0,067) among regulation and government related challenges and the decision power of the subsidiaries. However, the adjusted residual values do not show levels that are higher than 1,96, probably due to the use of 5 point Likert scale.

Looking at the average values, the main regulation challenges for low decision power firms are unclear and changing regulations and government involvement in economy. For high power subsidiaries is obtaining required licenses. Subsidiaries with higher level of decision power have higher level of regulation challenges, except for unclear and changing regulations and government involvement in economy, that are higher for low decision power firms.

Regulations and government related challenges have similar average perceptions by firms established before and after 2010. For those established earlier regional disparities (DIS) and obtaining required licenses (LIC) are the most challenging issues (5,3/5) while for those established later licenses is the most remarkable challenge (3,5/5).

Experience that managers have in China is associated to the unclear and changing regulations. Managers that think that, to a certain extent, this is a challenge for them, are lower than expected (higher than expected for more experienced managers).

Table 42. Adjusted residual values: Regulations and government related challenges- GM experience in China

Manager experience in China		≤ 4 years Less experience	> 4 years More experience	V de Cramer	Sig. Approx.
		Adjusted residual			
Unclear (UNC)	Certain extent	-2,5	2,5	0,604	0,067 *

Source: own elaboration

The average values indicate that for more experienced managers that factor about unclear regulations is the main difficulty and that this group of managers have in general higher challenges, except for obtaining licenses, that is higher and the main challenge for managers of 4 or less years of experience.

In sum, there is no factor that significantly influences the level of regulations related challenges that the managers perceive. Only few factors such as the corruption or the unclear regulations have significant associations. In fact, corruption seem to be a higher problem for subsidiaries with a higher decision power and unclear regulations are a higher difficulty for managers with higher experience in China. The former could be because those subsidiaries that have more responsibility and functions could perceive corruption in more areas of their activities or dealing with more institutions (bureaus, etc.). The latter is more surprising result, as we may think that working experience in China gives you higher knowledge about the regulations, but as managers used to point out “the more time I am in China, the less I know”. Working with government is not just a matter of periodically dining the right government officials but it should be a must-do planning activity within the strategy of the firm.

The general service firms present in parks (A1 in MKIP or B5 in KGIP) provide that support on understanding the regulations, so, opposite to what we expected, the average values show higher regulation challenges for collocated firms, especially in obtaining licenses. Isolated firms however find higher challenges regarding the unclear and changing regulations. China is still in a development process so the laws and regulations may be changing to favour some aspects of the country’s development. Entry reasons does not influence regulation issues but it seems that both market and resource seeking firms’ main concern is obtaining the right licenses to operate in China.

As for the transnational view factors, firms with low culturally diverse internationalization and those subsidiaries with higher levels of decision power have much higher regulation challenges. Firms could have learned from previous experiences in distant host countries and on the other hand firms with

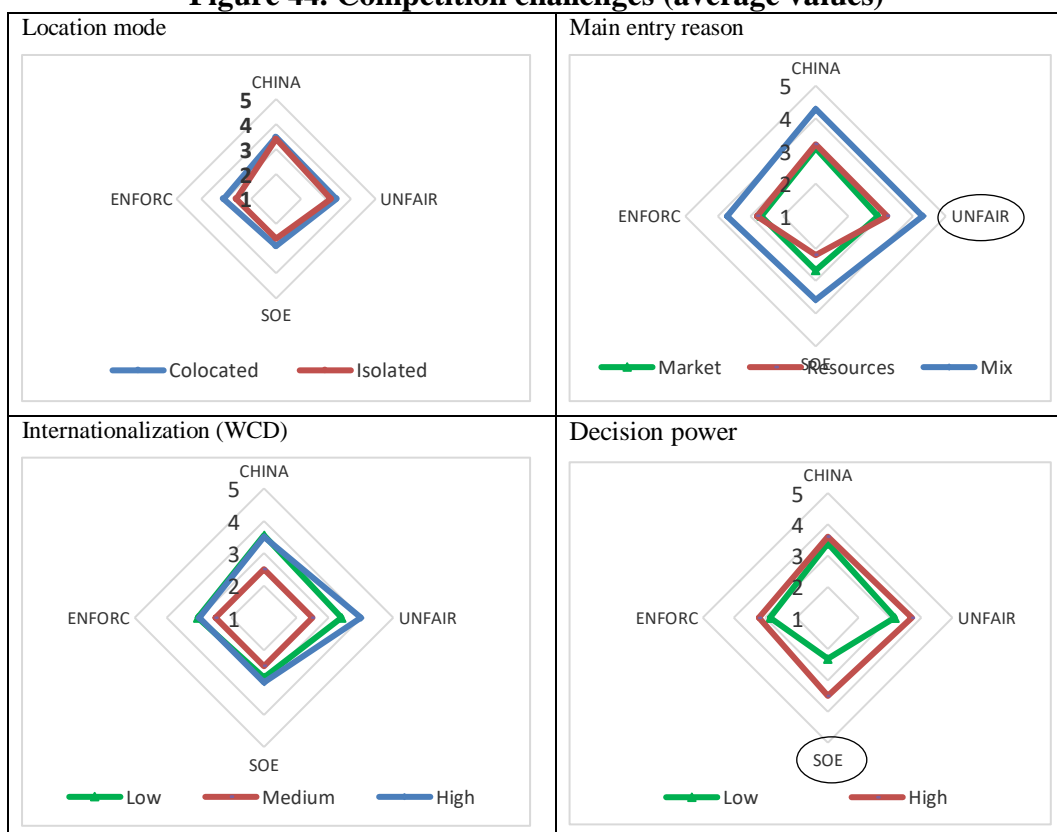
more decision power in different areas of activity (HR, finance, marketing, IT, strategy, etc.) may have higher needs to understand the local regulations.

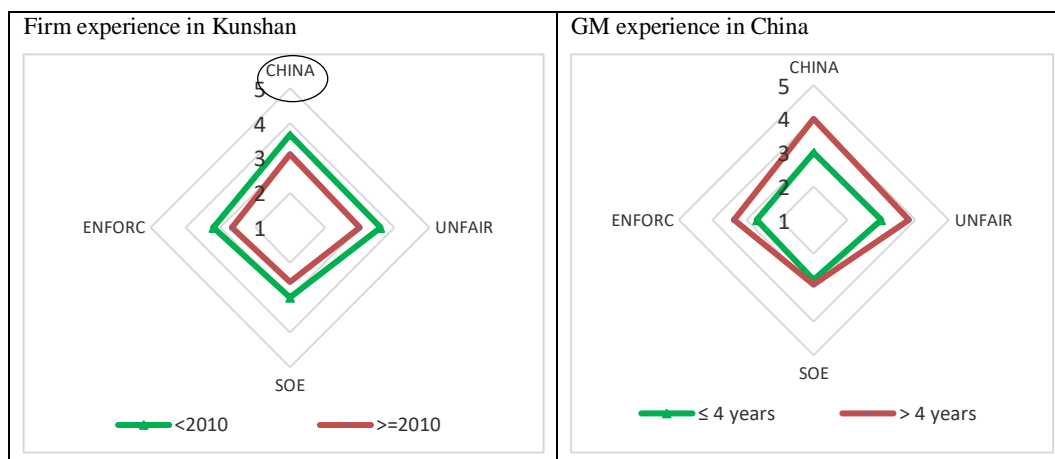
The contextual experience factors does not show significant associations but we can see that firms that has been established earlier in Kunshan and managers with more than 4 years of experience in China perceive more regulation challenges.

6.1.6 Competition challenges

The descriptive analysis of the average values of competition challenges can be represented as follows (where we indicate which variables have statistically significant results):

Figure 44. Competition challenges (average values)





Source: own elaboration

Both groups (collocated/ isolated) think that within this area, the fact that Chinese competitors are getting stronger (CH) is the highest challenge that they have to face. Except from the insufficient law enforcement (ENF) that has a higher distance between collocated and isolated firms (3,1 and 2,6 respectively), most of the factors have similar perceptions.

Contingency tables (Table 43) that related competition challenges with subsidiaries main entry reasons. Firms with mix entry reasons and find unfair competition a big challenge are more than expected.

Table 43. Adjusted residual values: Competition challenges- Main entry reason

Main entry reason		Market	Resources	Mix	V de Cramer	Sig. approx.
		Adjusted residual				
Unfair comp. (UNFAIR)	Large extent	-1,9	-,9	2,9	0,529	0,098 *

Source: own elaboration

Firms with mix entry reasons are those who face highest competition challenges. Market and resource-seeking firms have similar values but the unfair advantages for state-owned firms (SOE) may be considered a higher challenge for market seeking firms than for resource seeking firms.

Firms with medium WCD have lower competition challenges, while firms with higher WCD perceive higher pressure in this sense. The highest competition-related challenge for low level WCD firms is the fact that Chinese competitors

are getting stronger (CH) (3,55/5), form medium level WCD firms all 4 challenges punctuate the same (2,5/5) while for high level WCD firms, the unfair advantages of state-owned firms seem to be the highest (4/5).

The contingency tables about decision power show that the number of firms with low decision power that evaluated unfair advantage of state-owned firms as a limited challenge are higher than expected (lower than expected for firms with higher decision power).

Table 44. Adjusted residual values: Competition challenges- decision power

Decision power of subsidiary		Low	High	V de Cramer	Sig. approx.
		Adjusted residual			
SOE	Limited extent	2,2	-2,2	0,593	0,088 *

Source: own elaboration

The average values show that for firms with lower decision power the main challenge is that Chinese competition is getting stronger and for firms with higher autonomy unfair competition is the main challenge and in general, these firms have higher level of challenges in all the competition factors.

Firms' experience in Kunshan shows some association with the fact that Chinese competitors are getting stronger (V creamer 0,597 and approx. sig. 0,073) but that association is not strong enough (adjusted residual values < $\pm 1,96$).

As for the average values, firms established before and after 2010 in China perceive competition challenges similarly. For both groups the fact that Chinese competitors are getting stronger seem to be the highest challenge (3,7 and 3,1 respectively).

Average values show that more experienced managers have more competition challenges, especially on Chinese competition. Less experienced managers see Chinese competition and unfair competition as the highest within this construct.

In sum, the competitive uncertainties that firms face seem to be influenced by several factors such as their entry reason or contextual experience in the host environment. Although collocation does not significantly determine the level of competition challenges, collocated firms have higher challenges, especially regarding the fear towards Chinese competitors. Market seeking firms have significantly fewer competition challenges while those with mixed entry reasons have higher challenges, especially facing unfair competition. This could be due to the fact that western firms are still in the transition of shifting their China strategy towards the internal market and thus, they may see that the market opportunities are higher than the competitive pressure. Firms with mixed entry reasons may be more concerned about costs and thus, may see higher cost pressures from state-owned firms or local Chinese competitors.

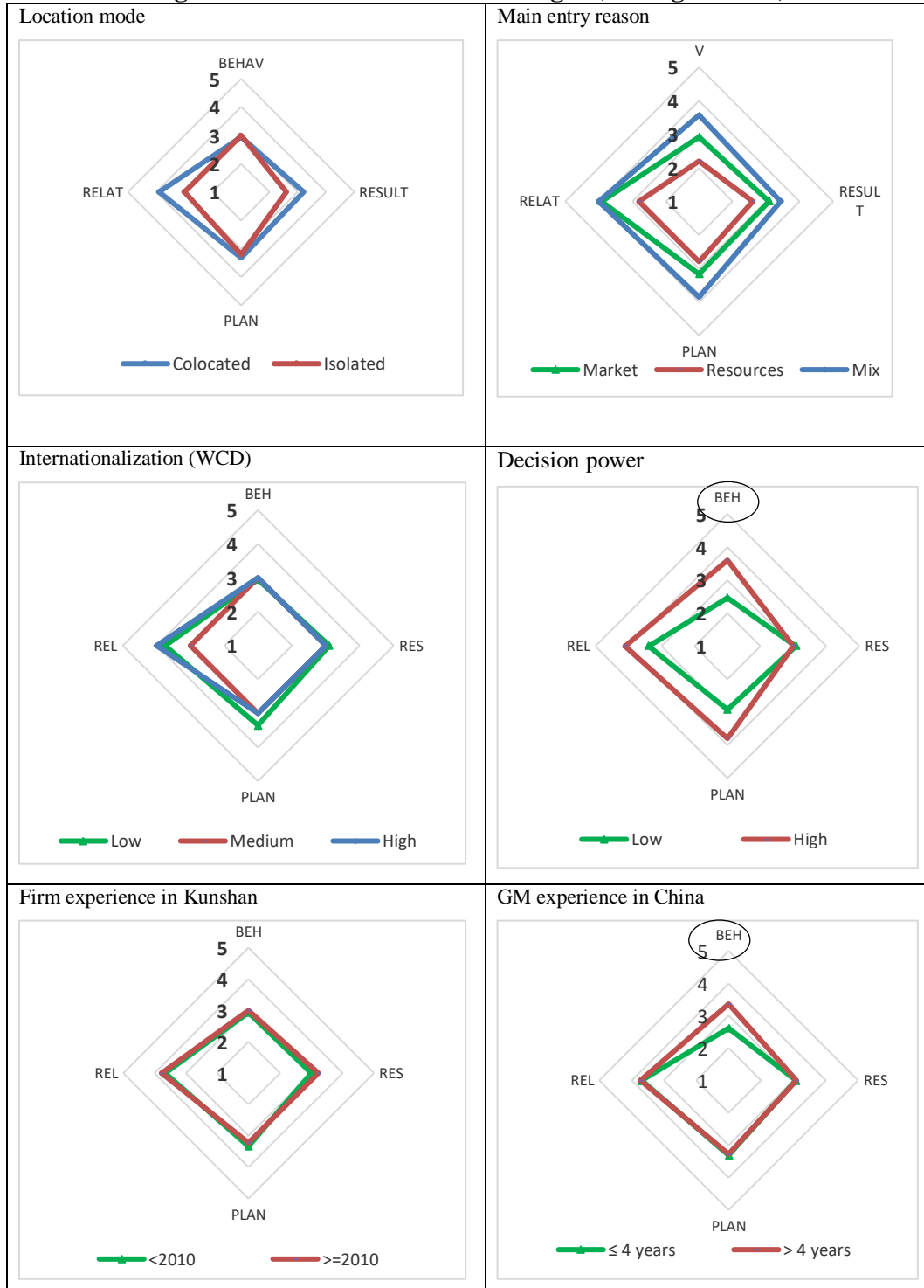
Firms with a more culturally diverse internationalization level and those subsidiaries with higher levels of autonomy have higher competition challenges. These autonomous subsidiaries are especially concerned about state-owned enterprises.

The experience of the firm in Kunshan and the GM's experience in China determine the heterogeneity of perceptions about competition challenges in an inverse way. Firms with lower experience and managers with higher experience are the groups that perceive higher competition challenges in a significant way.

6.1.7 Market related challenges

The descriptive analysis of the average values of market related challenges can be represented as follows (where we indicate which variables have statistically significant results):

Figure 45. Market related challenges (average values)



Source: own elaboration

It seems that colocated firms perceive higher challenges on the market. The most challenging factor for them is the time that takes to develop relationships with clients (3,9/5) while the consideration that customers budget and plan less (PLAN) is the most important market challenge for isolated firms.

Firms with mix entry reasons are the ones that face higher market challenges, while for resource-seeking market challenges are not much of a concern. Market seeking firms think that the most challenging factor is the time that it takes to develop relationships with clients (REL).

All firms have similar perceptions about the market challenges. As compared to the other two groups, firms with low WCD punctuate higher the challenge related to the fact that customers budget and plan less (PLAN). Firms with higher WCD instead, believe that the highest market challenge is the time that takes to develop relationships with clients (REL) (4/5).

Looking at the contingency tables about market challenges and decision power we see a significant association (V creamer 0,578 and approx. sig. 0,104) with consumers' behaviour (BEH) but no adjusted residual values that are higher than 1,96.

The average values on decision power indicate that for both low and high decision power firms the time that it takes to develop relationships with clients is the main challenge. Subsidiaries with higher decision power have more market challenges except for the factors about result-oriented customers, which is higher for firms with low decision power.

Average values about the perception on market related challenges are almost identical for both groups and in both cases (firms established before and after 2010) the time it takes to build the relationships with clients (REL) is the most relevant market challenge.

Managers' experience in China is associated to the market challenges related to the uncertain behaviour of customers. Those less experienced managers that think that these factors could be to a limited extent or certain extent a challenge are less than expected while they are higher than expected for those that were not sure. The opposite happens for more experienced managers

Table 45. Adjusted residual values: Market challenges- GM experience in China

Manager experience in China		≤ 4 years Less experience	> 4 years More experience	V de Cramer	Sig. Approx.
		Adjusted residual			
Behaviour (BEH)	Limited extent	-,2	,2	0,579	0,090
	Not sure	2,0	-2,0		
	Certain extent	-2,5	2,5		

Source: own elaboration

Average values show almost the same values for both more or less experienced managers. Only that behaviour is higher challenge for more experienced managers.

In sum, market challenges does not seem to be determined by any of the characteristics of the firms. The only factor that shows some discrepancy is the uncertain behaviour of customers, which shows that this is a high challenge for subsidiaries that are more autonomous as well as for more experienced managers.

Looking at the average values collocated firms, those with mix entry reasons, low culturally diverse internationalization, higher decision power or with more experienced managers, face higher market uncertainties, especially due to the time it takes to develop relationships with clients in China.

6.2 Agglomeration and cluster effect

The previous research question was associated to a more general environment where we evaluated the challenges that firms have when doing business in China. In this section, we will analyse whether the firms established in the same physical location along with other subsidiaries from the same country-of-origin (COO) perceive advantages. The research question associated to this analysis is:

2. Which externalities do COO FDI agglomerations provide? Do they differ among subsidiaries?

The question given to the interviewees to analyse this research question was:

To what extent does your localization mode (co-located or isolated) positively influence the following factors? (1 not at all/ 2 limited extent/ 3 not sure/ 4 certain extent/ 5 large extent)

We will perform a descriptive analysis of these perceptions using average value comparison and contingency tables. Contingency table analysis will include both the variables within each of these 6 constructs and the K-mean cluster that summarizes each construct. The summary of contingency tables can be found in appendix 12.

The 6 constructs are the following. The validity of these variables has been previously analysed in chapter 5.

- 1 - Local market knowledge and resources (6 variables)
- 2 - Industry- specific knowledge and resources (10 variables)
- 3 - Legitimacy and reputation (6 variables)
- 4 - Networking and social interaction (10 variables)
- 5 - Market conditions (8 variables)
- 6 - Costs (7 variables)

Besides, as data was collected through an interviewer administered structured interview, qualitative data will also be shown. This information will help us understand the nature and reasons behind their perceptions.

6.2.1 General view on cluster effect

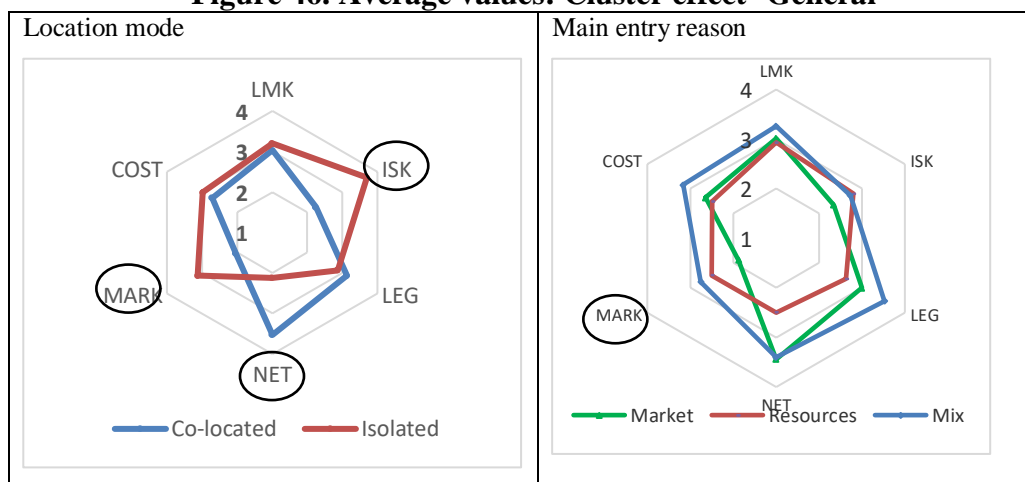
To have a general view on the cluster effect, we will analyse the differences among firms by using 3 types of analysis: a) comparison of average values for each construct; b) contingency tables of Kmean variables that summarize each construct; c) multiple correspondence analysis that summarized the characteristics of the firms.

As justified previously and in order to detect whether the cluster effect differs among subsidiaries we analysed these differences in terms of:

- 1) The subsidiaries colocation mode
- 2) Main entry reason in China

We analysed the punctuations given by the managers by the average values where we indicate which variables have statistically significant results (Figure 46):

Figure 46. Average values: Cluster effect- General



Source: own elaboration

Data from contingency tables indicates an association among location mode and industry-specific knowledge and resources (ISK), networking and social interaction (NET) and market conditions (MARK). Colocated firms that perceived high advantages on ISK and MARK factors were lower than expected (higher than expected for isolated firms). For NET factors, however, colocated firms that perceived high benefits associated to their location mode were more than expected (less than expected for isolated).

Table 46. Adjusted residual values: Cluster effect- Colocation

Colocation		Co-located	Isolated	Phi	Sig. Approx.
		Adjusted residual			
Industry (ISK)	High	-2,5	2,5	0,508	0,013**
	Low	2,5	-2,5		
Networking (NET)	High	2,7	-2,7	0,558	0,006***
	Low	-2,7	2,7		
Market (MARK)	High	-2,2	2,2	0,450	0,027**
	Low	2,2	-2,2		

Source: own elaboration

There is a statistically significant association for entry reasons and market condition factors. Resource-seeking firms that perceived higher advantages on this area are higher than expected (lower than expected for market-seeking firms).







Regarding average values, mix reasons-seeking firms’s main advantage is on legitimacy, and they have higher positive effects on everything, except for industry specific knowledge and resources that is higher for resource seeking firms. Market –seeking firms seem to have higher advantages from colocation on networking (main), while resource- seeking firms find the hisghest positive effects on local market knowledge. Firms with mix reasons see legitimacy as the main advantage.

Table 47. Adjusted residual values: Cluster effect- Main entry reason

Main entry reason		Market	Resources	Mix	V de Cramer	Sig. Approx.
		Adjusted residual				
Market (MARK)	High	-3,0	2,2	1,3	0,625	0,009 ***
	Low	3,0	-2,2	-1,3		

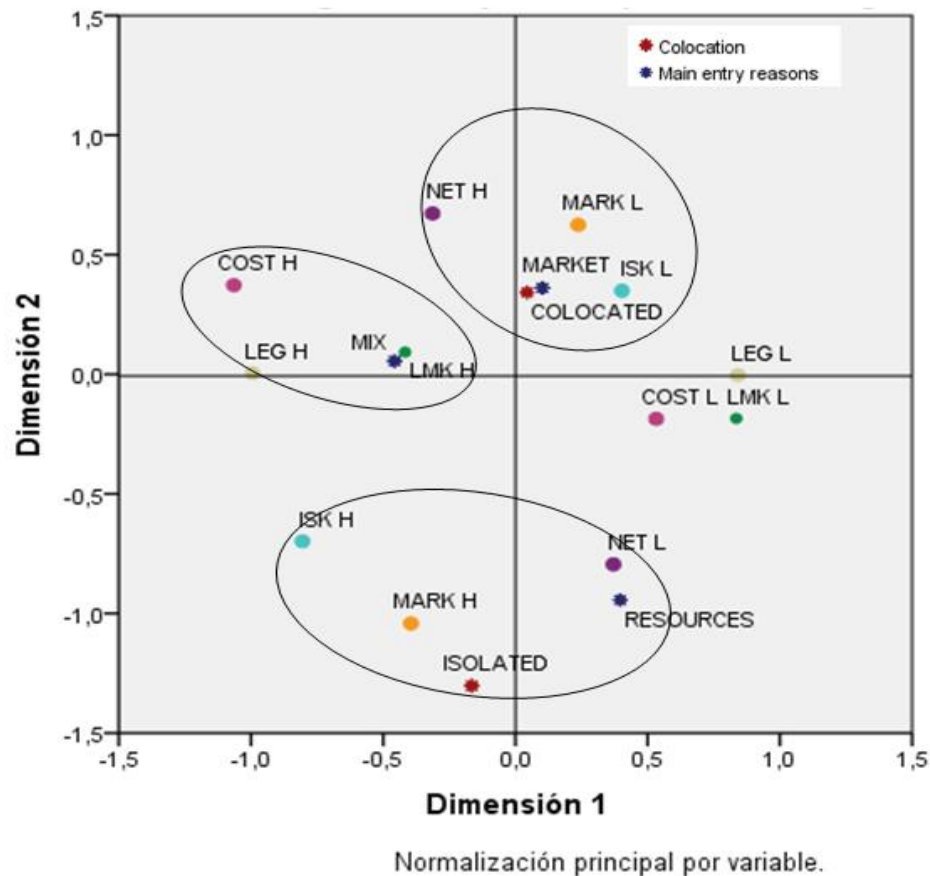
Source: own elaboration

The multiple correspondence analysis will represent the 6 types of cluster effect constructs as:

-  Local market knowledge and resources (LMK)- “Local”
-  Industry- specific knowledge and resources (ISK)- “Industry”
-  Legitimacy and reputation (LEG)- “Legitimacy”
-  Networking and social interaction (NET)-“Networking”
-  Market conditions (MARK)- “Market”
-  Costs (COST)- “Costs”

The model of analysis (Appendix 14) explains, with 2 dimensions, 63,4% of the total variance. Dimension 1 is mainly discriminated by local market knowledge, legitimacy and costs while colocation, entry reasons, networking and market factors define dimension 2. Although we do not have an specific variable that distinguishes all the effects between high and low, the graph indicates us that dimension 1 is discriminating high positive effect to the left (negative values) and low positive effects to the right (positive values).

Figure 47. Joint plot of category points
(Cluster effect- colocation- entry reason)



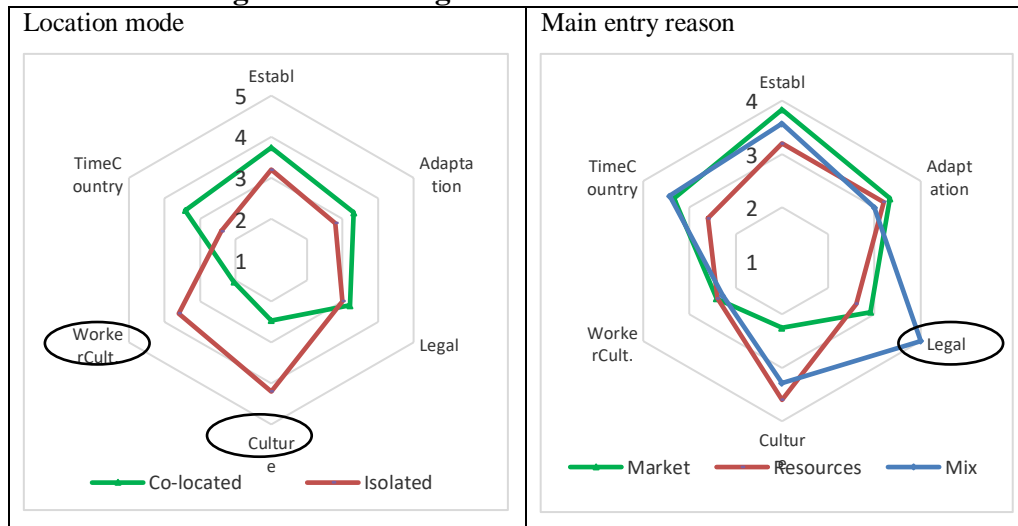
Source: own elaboration

In line with previous analysis (average values and contingency tables) the plot shows that Colocated firms are associated to market entry reasons (as indicated previously in this research) and they perceive that colocation status give them low advantages on industry-specific knowledge and resources or market related factors but higher advantages on networking and social interaction. In the opposite way, isolated firms are linked to resource-seeking companies and perceived that being isolated gives them advantages on market and industry-specific factors. Firms with mix entry reasons believe that their colocation mode provides high advantages on local market knowledge and resources as well as on legitimacy or costs.

6.2.2 Local market knowledge and resources

The descriptive analysis of the average values of how different factors positively influence local market knowledge and resources of the subsidiaries can be represented as follows (where we indicate which variables have statistically significant results):

Figure 48. Average values: Cluster effect - Local



Source: own elaboration

Data shows some statistically significant results on how colocation influences local market knowledge and resources.

Table 48. Adjusted residual values: Local (LMK) - colocation

Colocation		Co-located	Isolated	V de Cramer	Sig. Approx.
		Adjusted residual			
Culture	Large extent	-2,9	2,9	0,637	0,045 **
WorkerCult.	Large extent	-2,9	2,9	0,668	0,030 **

Source: own elaboration

Specifically, the number of collocated firms that perceived that their colocation status provided large positive effects on 1) the knowledge about culture, religion and language in China and 2) their capacity to find local workers familiar with their home language, culture, infrastructure, entertainment, markets, etc. were fewer than expected (and higher than expected for isolated firms). This goes in line with the average values that show that isolated firms evaluated those factors as the most beneficial.

This can be due to the fact that firms perceive that too much country-of-origin interaction among expats may keep them apart from learning the local culture. Besides, the perception is not very high for those firms that had already been in China for some time. They do not see that their knowledge came from the COO cluster but from their experience.

“It (COO agglomeration) has an opposite effect that makes you adapt less to the culture, because I know many people is working for Spanish or German companies you know, in real China not in Shanghai, and they know much more about Chinese culture... I think it is worse” (A3, 2013- *Colocated*).

“If you are isolated somewhere yes, you need to be more adapted so in that sense it does not help much” (A9, 2013- *Colocated*).

“If I was isolated I think I would have learnt more. See, this is a very significant comparison, I speak Slovakian language quite well and I do not speak Chinese. Over there in two years I was speaking Slovakian” (A10, 2013- *Colocated*).

“I got that knowledge because experience, and because of being here in the cluster. It is true that maybe it can be a little bit the opposite, because if we didn't have that one (cluster) we would not be meeting expats and we would be meeting Chinese people [...] but sometimes I can explain something about Chinese guanxi or culture in a better way, as he/she will understand that better from me than from a Chinese” (A8, 2013- *Colocated*).

“It is not good for adaptation because this is like a ghetto” (C3, 2013- *Colocated*).

“In our case, we have been here for a long time. The acquisition (of that knowledge) has been done all these years. If you are anew comer yes, it is important to be colocated, but for us, it is because w have been here for 5 years” (C1, 2013- *Colocated*).

They also believed that the park was not that “powerful” to attract Chinese workers with knowledge about their home-country language or the business practices. In any case, that was not something that firms looked for as they focus on hiring people with knowledge of English.

“In China there are not many Chinese studying Spanish and if they know, they know the language but not the profession so we search for people with English and forget about Spanish. If you have people with Spanish, they become a bottleneck and indispensable and you can have problems” (A12, 2013- *Colocated*).

“The difficult thing is to retain them. In Shanghai or Beijing maybe are disciplined but not here. You can attract when they are young, their first experience. But if you don’t give something interesting, this kind of people is...”
(A8, 2013, *Colocated*).

The average values however, show that collocated firms have higher values in the rest of the factors. Especially relevant for collocated firm is the positive effect that they obtain from their collocation on knowledge and capacity for the establishment process and to surpass country entry barriers.

“For the establishment process I think it was good in the beginning. Because you know, the relationship with the local government is not so easy, so it helps a lot”
(A3, 2013- *Colocated*).

“In the beginning it helps, in the beginning it helps. Anyway, it is not the issue of the general service company. I am thinking mainly about government, country and barriers, government. If you are a small company, alone you will find more difficulties [....]. For some of those difficulties, I consider that the part of been here makes the solution a little bit easier. For the local government we are not A10 we are Mondragon. And when a small company is coming here, we are an example” (A10, 2013- *Colocated*).

“What helps is the lobby. We had a problem during the construction and as a result of developing the process through the general service company (A1) and being so many companies here they removed us the fine, and that was not little money. Besides, we saved time by establishing here as we wanted to rent a workshop and thanks to all the companies that are in the park we hired a space to one of them which was very handy for us” (A12, 2013-*Colocated*).

Statistically significant results on how the firms’ entry reasons influence their local market knowledge and resources indicate that the number of market-seeking firms perceived that their location status provided large benefits on the knowledge they acquired about the legal environment, norm and institutions were lower than expected (while higher than expected for firms with mix reasons). This is in line with the average values that indicated that for mix-reason firms this was the highest benefit.

Table 49. Adjusted residual values: LMK- Main entry reason

Main entry reason		Market	Resources	Mix	V de Cramer	Sig. Approx.
		Adjusted residual				
Legal	Large extent	-2,2	-1,1	3,4	0,595	0,030 **

Source: own elaboration

“We get high benefits on this, mainly related to institutions and guanxi” (A9, 2013- *Mix reasons*)

“Some companies we know each other, we work and help each other, we have contract with certain Chinese companies. Yes we get benefits” (B1, 2013- *Mix reasons*)

“I know that if I have some problems with the government I can speak with A1 and I get very high support [...] more or less for the rules, the standards that now we need to be in China” (A6, 2013. *Mix reasons*).

“The service of the park helps in the beginning when you just arrive, because you do not have experience and you trust the previous entrants. We do not see much benefit here because we work with our own local lawyers that act globally and they know a lot about China” (A12, 2013, *Market reasons*).

“We would have more knowledge if we were together or we had centralized service. In the park they share experiences, etc.” (D1, 2013- *Resource reasons*).

Other average values show that market-seeking reasons have the highest values about the positive influence of their colocation mode on establishment process and management adaptation related factors, while resource-seeking firms value higher the knowledge about culture, religion and language in China.

“The knowledge on the establishment process could be improved. The knowledge around is limited. If we had to say, open a factory here and analyse the type of factory, the investment, etc. I am sure we would do our own with the help of a consultancy” (A5, 2013- *Resource*).

“I think it is important to be here. We are benefited to certain extend. Because there is a big knowledge of cooperation and you talk with people that normally try to help you” (A2, 2013- *Market*).

In general, the acquisition of knowledge about the local market is not significantly associated to the firms’ entry status (colocation and entry reason).

Without considering other factors, isolated and resource seeking firms have higher benefits on this area but if we consider other variables and not the punctuations (1-5) but the categories in each variable (low-high), those higher benefits on local market knowledge are associated neither to collocated or isolated firms but quite remarkably to firms with mixed entry reasons.

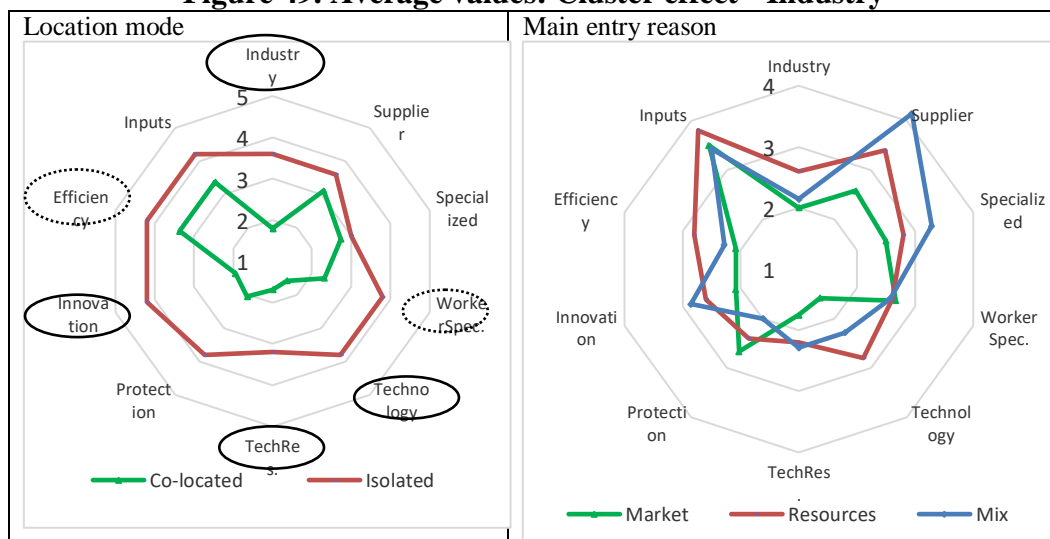
More accurately, data shows heterogeneous results on cultural issues such as the knowledge about the Chinese culture and the capacity to find local workers familiar with the home country culture. Isolation helps perceiving higher cultural benefits. This is well explained with the qualitative data, which shows that collocation could hinder cultural adaptation and integration.

Distant results are also evident in the influence of the entry reason on the knowledge about the legal environment. Firms with mixed reasons seem to perceive higher location benefits on this factor but market-seeking firms perceive low benefits. Firms recognize the need of working with local lawyers that know the local setting.

6.2.3 Industry specific knowledge and resources

The descriptive analysis on the degree that location mode positively influences industry-specific knowledge and resources can be represented as follows (where we indicate which variables have statistically significant results):

Figure 49. Average values: Cluster effect - Industry



Source: own elaboration

In terms of collocation, data shows quite significant results the following variables of this construct (ISK): Industry, Technology, TechRes, Innovation.

Table 50. Adjusted residual values: Industry (ISK) - Colocation

Colocation		Co-located	Isolated	V de Cramer	Sig. Approx.
		Adjusted residual			
Industry	Not at all	2,1	-2,1	0,686	0,023
	Large extent	-2,9	2,9		
Technology	Not at all	2,5	-2,5	0,78	0,006
	Limited extent	2,5	-2,5		
	Certain extent	-2,0	2,0		
	Large extent	-2,9	2,9		
TechRes.	Not at all	2,7	-2,7	0,657	0,035
	Large extent	-2,0	2,0		
Innovation	Not at all	2,3	-2,3	0,827	0,003
	Limited extent	2,3	-2,3		
	Large extent	-3,6	3,6		

Source: own elaboration

For all the factors the number of collocated firms that think that location mode does not provide benefits (not at all or limited) on those factors is higher than expected and the number considering benefits (certain or large extent) are lower than expected. The opposite is true for isolated firms. The average values show similar results as, in general, isolated firms obtain higher benefits on all these factors.

“I do not think that those in parks would obtain many benefits on knowledge about the industry” (D1, 2013- Isolated).

“Most of the companies in the park have no relationships with us for this [industry-related information and knowledge]. Only one company that has been our client” (A9, 2013- Colocated).

“It is more by accident let’s say, not structured and due to the park. Sometimes we even have supplier- customer relationship within the companies but there is not much interaction for industry knowledge” (B5, 2013- Colocated).

“For knowledge about technology trends it doesn’t help us been here because our business is totally different” (A2, 2013- Colocated).

“We do not share knowledge about technology trends” (B3, 2013- Colocated).

“To access technological resources to be or not to be in a park is the same” (A10, 2013- Colocated).

“Innovation capacity is totally independent (among firms in the park)” (A12, 2013- *Colocated*).

“Our R&D centre is Spain and we don’t look for technological resources. In the future probably yes, because our customer is asking to have recruitment here related to development of new products, so probably in the next 2 or 3 years probably we will make something. Maybe we have to develop our engineering department...research and development could be implemented here” (A3, 2013- *Colocated*).

Although Cramer V showed some association between colocation and WorkerSpec (0,597) or efficiency (0,566) the adjusted residual values are not significant ($< \pm 1,96$).

Firms with market- seeking reasons think the highest positive influence of location is on the capacity to find specialized labour and the protection against expropriation, while for resource-seeking firms the access to productive inputs is the highest factor. Firms with mix reasons find the knowledge about suppliers’ behaviour the factor where location influences most. In general, this last group of firms get more positive influence on this construct. The results however are not statistically significant considering the contingency tables.

“Yes it helps to be in a park, even though here we receive quite unqualified workers. We need engineers and it is difficult to find them” (A2, 2013- *Market*).

“I ask friend here about the profile of workers, about what should be look for, about their experience... for you looking on process it is much easier. A1 does not give recruitment service but we create working groups between directors here in the park. We should meet more frequently for this” (C3, 2013- *Market*).

“We are working on this now to know where to find good people because we are very worried about training. Some have been in university but the real background they have is very low. Purchasing, engineering... are profiles that are quite difficult to find” (A3, 2013- *Market*).

“Nobody can do much against expropriation. Individually you can have patents, etc. but if they want to copy you, they will do it” (A5, 2013- *Resources*).

“We need qualified labour but we have difficulties especially with medium high level, Project managers, HHRR supervisor, and these kind of profiles.

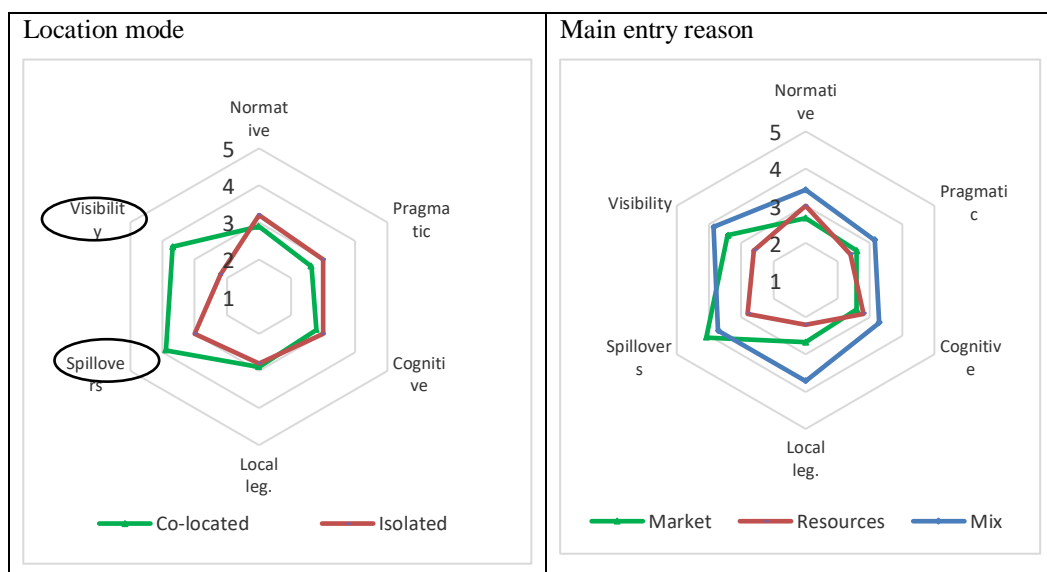
Technicians we have improved a lot, but it is hard to find people with experience in machine sector and in similar machines like ours” (A9, 2013- Mix)

Our results showed a heterogeneity on how colocation influences the perception about how clustering could improve or not the acquisition of industry-specific assets. In general, this area have some of the lowest punctuations. Isolation shows higher benefits on these factors, while colocation is associated with low advantages. As shown by the qualitative data, the fact that country-of-origin clustered firms have very different business activities from one each other influenced this perception. In fact, all the factors (knowledge about industrial forecast, technology trends, improvement on their innovation capacity, etc.) are higher for isolated firms. As far as entry reasons is concerned there is no significant heterogeneity about the cluster effect on the industry knowledge.

6.2.4 Legitimacy and reputation

The descriptive analysis on the degree that colocation mode positively influences the legitimacy and reputation of the fimrs can be represented as follows (where we indicate which variables have statistically significant results):

Figure 50. Average values: Cluster effect - Legitimacy



Source: own elaboration

According to contingency tables, data shows some statistically significant values on spillovers and visibility.

Table 51. Adjusted residual values: Legitimacy (LEG)- colocation

Colocation		Co-located	Isolated	V de Cramer	Sig. Approx.
		Adjusted residual			
Spillovers	Limited extent	-2,4	2,4	0,509	0,101*
Visibility	Limited extent	-3,2	3,2	0,688	0,023**

Source: own elaboration

Colocated firms that evaluated limited benefits on gaining legitimacy spillovers from previous entrants. The opposite is true for isolated firms.

“This is very important, the cooperation when you arrive... if somebody is here they help you a lot” (A3, 2013- Colocated).

“We already had A1 that has been very good to deal with institutions. The park has been of help for institutions because you have more volume and you are more important for the local authority” (A9, 2013- Colocated).

On gaining visibility and representation, are lower than expected, meaning they perceive benefits associated to these factors (as indicated in by the average punctuations too). The opposite is true for isolated firms. As stated by some of the members, in China, not only the dimension but creating a name and reputation is also very important and in that sense, collocating helps.

“Competition is very hard here and the park helps to build your reputation because you have previous clients here” (A2, 2013- Colocated).

“We were the first ones. Maybe now it is much easier for companies that are coming, they have some examples and if they talk to Qiandeng government about the MCC park they probably know who we are and that we are more than 15 companies, etc. I think here it is true that the part of being in a group helps us, if we would like to be visible, it would help” (A4, 2013- Colocated).

“You say look, we are in the German industry park. That helps. They give us more reputation” (B4, 2013- Colocated).

“Dimension in China is very important, so that is why the conditions are good enough for us. I can invite to see our installations or whatever... is not the same,

they are just coming to our factory and see what we are manufacturing or they see the client installing very closed to us in many factories” (C1, 2013- Colocated).

However, for MKIP, some companies do not belong to Mondragon Group and think it could be a bit confusing their association to Mondragon. In the opposite side, there are firms from Mondragon Group that are isolated outside the park, and in this situations the park is “used” as to gain visibility.

“Our company is quite well known and here it seems like we are behind Mondragon which is a big group and that could be good for us, but in the other hand it could be kind of messy because we don’t belong to Mondragon” (C3, 2013- Colocated).

“Not being in the park yes, could limit us. We sell ourselves as the Group (Mondragon), as we are near the park. Well we do not say we are inside or outside but we always mention the park and utilize that. We are a small firm, and to say that we belong to a group that has a park catches the eye” (D1, 2013- Isolated).

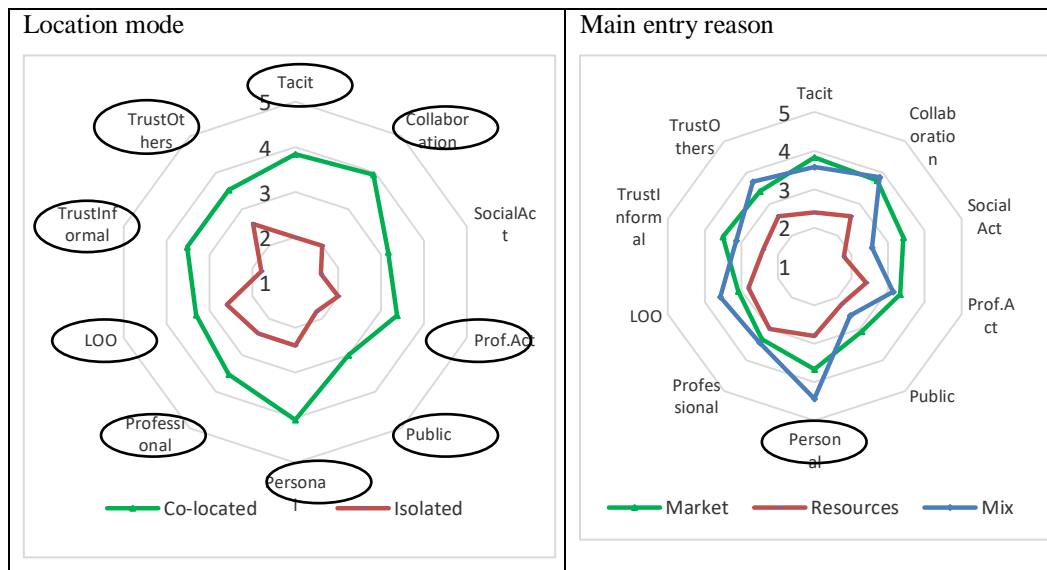
Regarding entry reasons, there are no statistically significant results, but the highest average values are represented by firms with mix reasons, except for legitimacy spillovers generated by previous entrants, that is higher for market seeking firms.

In sum, although the theoretical review indicated that country-of-origin clusters could help its members acquiring legitimacy, the findings do not indicate much diversity between collocated and isolated firms. The exception is that collocated subsidiaries find that being clustered help them acquire legitimacy spillovers generated by previous entrants and that their visibility is increased. This is linked to their idea of lobbying, which they find an important part of their operations in China due to their size limitations. Although firms with mixed entry reasons seem to have higher legitimacy benefits from their location, this association is not significant.

6.2.5 Networking and social interaction

The descriptive analysis on the degree that colocation mode positively influences the networking and social interaction of the firms can be represented as follows (where we indicate which variables have statistically significant results):

Figure 51. Average values: Cluster effect - Networking



Source: own elaboration

As the contingency table shows, there are quite a number of significant results that associate networking factors with colocation mode.

Table 52. Adjusted residual values: Networking (NET) - colocation

Colocation		Co-located	Isolated	V de Cramer	Sig. Approx.
		Adjusted residual			
Tacit	Not at all	-2,0	2,0	0,727	0,013**
	Limited extent	-2,4	2,4		
	Certain extent	2,5	-2,5		
Collaboration	Limited extent	-3,6	3,6	0,801	0,004***
Prof. Act	Limited extent	-2,4	2,4	0,571	0,098*
	Not sure	-2,4	2,4		
Public	Limited extent	-2,5	2,5	0,571	0,098*
Personal	Limited extent	-2,9	2,9	0,681	0,025**
Professional	Limited extent	-2,0	2,0	0,681	0,025**
LOO	Limited extent	-2,8	2,8	0,631	0,048**
Trust Informal	Limited extent	-2,8	2,8	0,664	0,032**
Trust Other	Limited extent	-3,2	3,2	0,688	0,023**
	Certain extent	2,1	-2,1		

Source: own elaboration

Data of adjusted residual values show that colocated firms that believed that their location mode was not positively influencing (not at all or limited) networking factors (except social activities) were lower than expected. The opposite happens for isolated firms (higher than expected). This is in line with average values that show that colocated firms perceive higher benefits on networking factors. All the networking factors' values are higher for colocated firms and their likeliness of collaboration to share information or the access to tacit knowledge are the benefits where these differences are higher.

“You can have close interaction and face-to-face interaction so share information more frequently, or you can even go and visit other plants” (C2, 2013- *Colocated*)

“We are limited because we don't get resources and knowledge from other firms” (D5, 2013- *Isolated*).

“When you come to China you have many problems and everybody here is ready to help” (A3, 2013- *Colocated*).

“We all have a good attitude towards collaboration” (A13, 2013- *Colocated*).

“Any time that you want something for you, you need to share, you have to share information first. For sure it is easier when there are firms from the same country there, and I am ready to share information” (C1, 2013- *Colocated*).

“We organize the sport meeting day, and for expats *babarrunada* and *Korrika* (gatherings that are typical in the Basque Country, for social or cultural reasons)” (A12, 2013- *Colocated*).

“In terms of professional activities we are trying too, but we are just in the beginning. For example here, now we are working in sales and in financial support” (A3, 2013- *Colocated*).

However, the co-located firms are also very critical and to a certain level, negative about certain issues so it may be that the isolated firms perceive that industrial parks provide higher cluster effects than they really do for member firms.

“We do not do many social activities and more is required as Chinese are also asking to make something so that they meet each other” (A3, 2013- *Colocated*).

“In terms of accessing public resources only the companies that entered in the first phase got help from institutions” (A2, 2013- *Colocated*).

“A1 only does guanxi in the beginning, now every company is trying to do by itself” (A3- 2013- Colocated).

The only statistically significant result regarding entry reasons is the personal support that firms obtain from networking. Resource seeking firms that believed this was a limited positive effect derived from location mode are higher than expected. This result is also shown in the average values. Firms with resource seeking reasons perceive the lowest positive effects on networking and social interaction. This is linked also to the fact that isolated firms are associated to resource-seeking firms.

“I don’t get any support, only from my workers” (D5, 2013- Isolated, mix).

“The personal support we get is very high” (A3, 2013- Colocated, market).

Table 53. Adjusted residual values: Networking (NET)- Main entry reason

Main entry reason		Market	Resources	Mix	V de Cramer	Sig. Approx.
		Adjusted residual				
Personal	Limited extent	-1,1	2,9	-1,4	0,533	0,092*

Source: own elaboration

The highest average punctuation for market seeking firms is the access to tacit knowledge and for firms with mix reasons is the personal support. For resource seeking firms cooperation of professional activities have the highest punctuation.

In sum, networking is one of the most significant areas, as it has to do with the interaction and trust that are required for a cluster to promote collaboration among its members. Colocation has been seen as a significant factor positively influencing networking and although not significant, market-seeking firms also perceive higher benefits on this area.

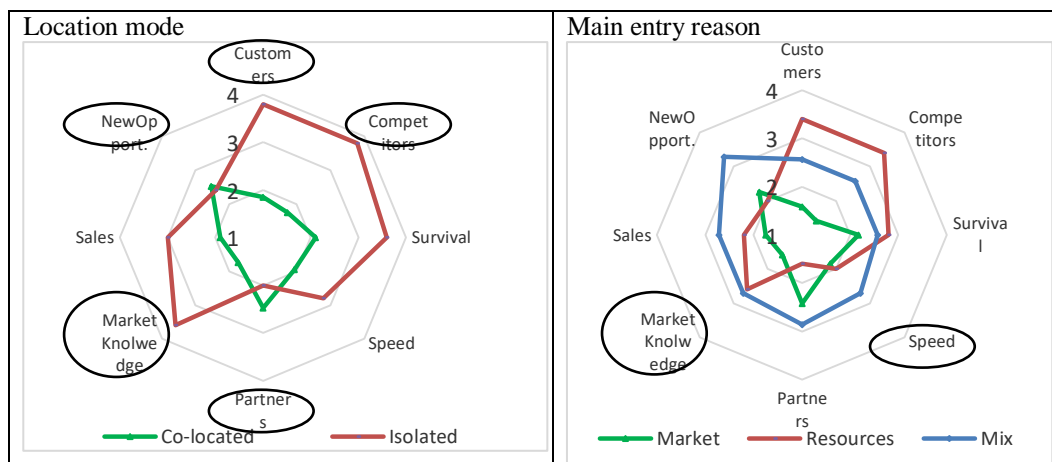
It is very significant that all the factors within this area except one (9/10) have significant values that show the heterogeneity of the perceptions. Colocated firms then benefit from a cluster effect that allow them access tacit knowledge, share information, cooperate to organize professional activities, give them access to public resources, provide personal and professional support, reduce their liability of outsidership and build guanxi, and develop trustful relationship

within the agglomeration. The exception is on the organization of social activities as the member firms

6.2.6 Market conditions

The descriptive analysis on the degree that colocation mode positively influences market condition factors can be represented as follows (where we indicate which variables have statistically significant results):

Figure 52. Average values: Cluster effect - Market



Source: own elaboration

Most of the factors related to market conditions show higher positive perceptions for isolated firms, except from those related to find business partners and new business opportunities, which seem to be higher for collocated firms.

Table 54. Adjusted residual values: Market (MARK) - colocation

Colocation		Co-located	Isolated	V de Cramer	Sig. Approx.
		Adjusted residual			
Customers	Not at all	2,1	-2,1	0,688	0,023**
	Large extent	-2,9	2,9		
Competitors	Not at all	2,3	-2,3	0,679	0,026**
	Large extent	-2,9	2,9		
Partners	Limited extent	-3,2	3,2	0,662	0,032**
MarketKnowledge	Not at all	2,1	-2,1	0,662	0,032**
	Not sure	-2,0	2,0		
	Certain extent	-2,1	2,1		
NewOpport.	Limited extent	-2,8	2,8	0,696	0,020**

Source: own elaboration

Among the significant results, we find that collocated firms that see limited benefits on finding business partners and new business opportunities are lower than expected. This is consistent with the average values that show higher benefits on these factors for collocated firms.

“We are working with 3-4 companies in the park so yes, for us it was a big help to find business partners, in this case, clients, in the park” (A2, 2013- Colocated).

“The park helps a lot. My colleague is every day all the time asking a person here in the park, for references, etc.” (A12, 2013- Colocated).

“We search our own. It could limit us not being in the park” (D1, 2013- Isolated).

On the other side, collocated firms that see no benefits on the variables Customers, Competitors and MarketKnowledge are higher than expected (lower than expected for isolated firms). This is also shown in the graphs, as isolated firms perceive higher benefits on these factors.

“We do not feel limited on this as the park does not influence on those factors” (D1, 2013- Isolated).

The contingency tables show some statistically significant results for speed and market knowledge.

Table 55. Adjusted residual values: Market (MARK) - Main entry reason

Main entry reason		Market	Resources	Mix	V de Cramer	Sig. Approx.
		Adjusted residual				
Speed	Not at all	2,6	-0,7	-2,2	0,524	0,105 *
	Limited extent	-2,1	1,2	1,3		
MarketKnowledge	Not at all	2,5	-1,1	-1,7	0,574	0,045 **
	Certain extent	-0,6	2,1	-1,2		
	Large extent	-1,5	-0,8	2,3		

Source: own elaboration

As for speed is concerned, market-seeking firms that do not perceive (not at all) that location mode could improve the speed for reaction of the firms are higher than expected, and those that perceive limited improvements are lower than expected. Firms with mix reason that do not perceive benefits on speed are less than expected. This could be seen in average values, which show that mix reasons firms have higher benefits on speed factor.

“It does not help being here to react faster” (A3, A8, A10, A11, 2010-*Market*)

Market seeking firms do not see positive cluster effects on market knowledge while resource- seeking firms see benefits to certain extent and mix firms see benefits to a large extent (there are higher than expected firms within those categories). Average values show that the lowest punctuations are for market seeking firms and highest punctuations for this factor are on firms with mix reasons.

“On knowledge about market and customer here they cannot help you” (A12, 2013- *Market*)

“The cooperation on this is very very low” (A3, 2013- *Market*)

“In my case it is because we have a client here in the park” (A6, 2013-*Mix reasons*)

As for the average values is concerned, the lowest punctuations are for market seeking firms. For resource seeking firms, positive influence of colocation is higher on the motivation they get to improve their performance due to the demands of local customers and competitors and their chance of survival in the marketplace. For firms with mix reasons to enter in China to find business partners is the most relevant effect, while speed of reaction, finding business partners, knowledge about the market or access to sales opportunities are also important.

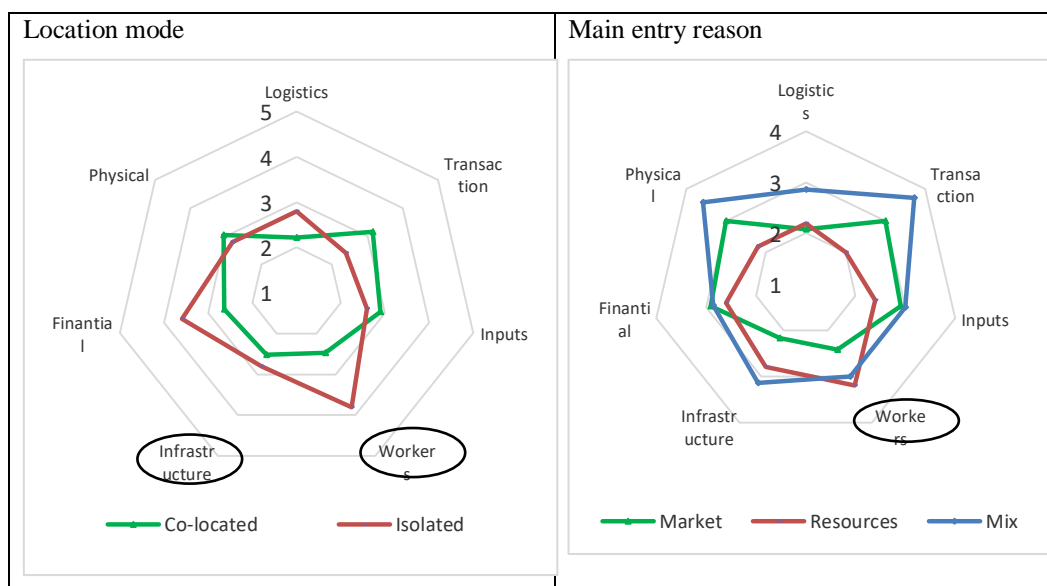
In sum, both colocation and entry reason characteristics of the subsidiaries seem to provoke differences on how they perceive location benefits on market conditions. Isolated firms and resource-seeking firms have higher punctuations. However, there are differences if we look closer at the variables within this group. For instance, collocated firms are the ones that benefit most from finding business partners or gaining access to new sales opportunities. This could be because they could consider other park members as partners or because collocated firms are more focused on the local market as compared to isolated firms.

There are two factors where entry reason could influence a heterogeneity of perceptions. On one hand, the speed of reaction to competitors' and customers' moves could be higher for firms with mixed entry reasons and lower for market seeking firms. On the other hand, although it seems contradictory, firms with mixed or resource reasons (not market reasons) perceive higher benefits on the knowledge about local customers' needs. This means that market-seeking firms do not consider their location status as influential to acquire this knowledge.

6.2.7 Costs advantages

The descriptive analysis on the degree that colocation mode positively influences the cost factors can be represented as follows (where we indicate which variables have statistically significant results):

Figure 53. Average values: Cluster effect - Costs



Source: own elaboration

Adjusted residual values show some significance on cost of labour and infrastructure, meaning there is some influence of the colocation mode on the perception about getting advantages on this factors or reducing their costs.

Table 56. Adjusted residual values: Costs (COST) - colocation

Colocation		Co-located	Isolated	V de Cramer	Sig. Approx.
		Adjusted residual			
Workers	Large extent	-2,0	2,0	0,564	0,106*
	Limited extent	-2,4	2,4		
Infrastructure	Large extent	-2,0	2,0	0,693	0,021**
	Limited extent	-2,4	2,4		

Source: own elaboration

Isolated firms that perceive that high benefits on reducing the qualified labour cost are higher than expected (lower than expected for colocation firms). Average values also show that the highest punctuations for this factor are given by isolated firms.

“Maybe they are paying more than outside the park so then it would be costly to be in the park” (D1, 2013- Isolated).

“It happens that when the agglomeration is high the cost increases” (A10, 2013- Colocated).

Cost of infrastructure is considered by isolated firms as being to a limited extent and large extent positively influenced by location mode. This may show that there are contrasting views among isolated companies. Average values on the costs of infrastructure show higher values for isolated firms.

Resource-seeking firms are not sure about whether location mode positively influences the cost of qualified workers (the opposite is true for market-seeking firms). In terms of average values and as compared to market or resource-seeking firms, those firms with mix entry reasons perceive higher cost benefits.

Table 57. Adjusted residual values: Costs (COST) - Main entry reason

Main entry reason		Market	Resources	Mix	V de Cramer	Sig. Approx.
		Adjusted residual				
Workers	Not sure	-3,5	2,5	1,6	0,618	0,019**

Source: own elaboration

If we compared market and resource seeking firms we see that, for market seeking firms, transaction costs and physical resources get higher punctuations while for resources seeking firms, the costs of specialized workers or the infrastructure seem to be more beneficial as a result of the location mode.

Thus, neither colocation nor entry reasons influence how subsidiaries perceive cost benefits from their location. The highest influence is on the cost of qualified and specialized workers as isolated and resource seeking firms perceive that they can get costs benefits on that. I line with the literature, managers argue that agglomerations could also generate diseconomies, of HR factors, as the firms compete to hire qualified workers. They also acknowledge the fact that being in a park is most costly than being isolated.

6.3. Social capital development in COO clusters

The industrial cluster is the ideal unit of analysis for investigating community-level factors and relationships (Zhang, Li and Schoonhoven, 2009). In this section, we will analysis the creation and mechanisms of one of the parks of the sample (Mondragon Kunshan Industrial Park), to which we got full access to the general managers.

The reach question related to this part of the analysis is the research question n. 3 that states:

3. How is the role that geographic expatriates' communities of practice have in COO clusters? How do they develop and build the social capital of the subsidiary network?

6.3.1. The setting

Before analysing the three dimensions of social capital we will introduced a more general analysis that describe the actors, their motivations to locate and enter in China and the different proximities found.

- *The actors*

The case study under analysis is Mondragon Kunshan Industrial Park, a business park set up in 2007 in Qiandeng, Jiangsu province, China, where the member subsidiaries are mainly from the Basque Country, Spain. As described

in chapter 5, Mondragon Kunshan Industrial Park (MKIP) was promoted on one hand, by the Basque Government and on the other hand by Mondragon Business Group.

A1 is Anaitasuna General Services Kunshan Co. Ltd. the firm that attracts and gives support to the investors in the park. It belongs to the 4 initial investors in different percentages (35,42% A10 , 25,42% A11, 27,57% A8 and 11,57% A4) but gives services to all the firms located in the park. The house where A1 has its offices represents a typical rural Basque cottage (constructed inside A10's land). It also embraces the restaurant where the managers have lunch, meeting rooms and guest rooms for visitors. The canteen and dormitories for workers are property of the 4 initial co-founders and are built in A8's land. A1 (General Services) has 17 employees and has the following functions:

1. Provide the general services of the park (green land, canteen, utilities supply, etc.)
2. Support the members of the park in their establishment process (location analysis, feasibility study, rental contract, local government relations, translation of legal documentation, licenses and registration formalities, opening bank accounts, etc.)
3. Attract investment to the park and to its surrounding
4. Identify synergies and develop existing synergies between the members.

Along with Mondragon China Shanghai office, A1 charges a fee to the companies for the support services for the establishment process (around 5 to 8 months), that includes:

1. Location selection and viability analysis
2. Environment impact evaluation
3. Preparation of legal documents for establishing a WFOE
4. Obtaining WFOE business license
5. Support with other certificates and bank accounts

The companies in the park have the right to use the following services by paying a monthly fee to A1 (Anaitasuna).

- Right to use the canteen for Chinese workers and the villa for expats (co-founders can use it for free but others need to pay for it)
- Right to use the gym in the Villa
- Right to assist the Chinese classes for expats and English classes for Chinese workers organized by Anaitasuna
- Right to assist to conferences and seminars organized by Anaitasuna
- Representation and negotiation with government institutions and bureaus
- Right to benefit from the negotiated prices and conditions awarded to Mondragon (security guards, language classes, external legal assistance, loan interest rates, gym in Qiandeng, hotels in Kunshan and Shanghai)
- Right to receive support and assistance from Anaitasuna's office team members regarding legal, fiscal, accountancy, import-export, IPR or recruitment and hunting issues.
- Right to access information and reports prepared by Anaitasuna
- Right to use Anaitasuna's internal staff for general service assistance: IT, air-condition technician, driver, cleaning (included in monthly fee: salary of the electrician, maintenance technician, gardeners, cleaning staff, cook)
- Right to use the services organized by Anaitasuna: Anaitasuna expats van, accommodation for local indirect workers (in rooms outside Villa) and expats (in Villa), cooking (in Villa) and catering service (in canteen⁷), gardening, security services, utilities supply.
- Right to use Chinese teacher for translation services

This service fee is charged per square meters except for the first 4 firms that founded A1 pay 50% divided into them 4 and the rest 50% per sqm.

However, even if Anaitasuna takes part in negotiating the prices and conditions of some of those services as well as organizing them, the firms have to pay apart for the following services:

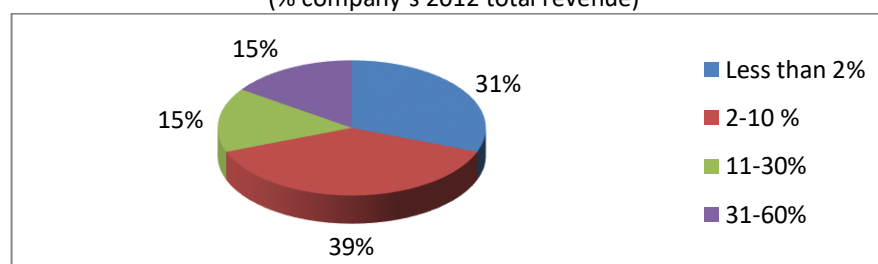
^{7 7} The canteen located down the dormitories (property of initial co-founders) has a capacity for nearly 500 people, accommodates workers of co-founders and Anaitasuna organizes the catering services there.

- Security guards
 - Chinese and English lessons
 - Transport for expats (van)
 - Translation services
 - Legal consultancy
 - Specific recruitment services
 - Accommodation for local workers (in rooms outside Villa) and expats in Villa) (Except the 4 founder firms, that do not pay for it and have 5 rooms for A8, 7 for A10, 5 for A11 and 2 for A4.
 - Meals for local workers (7 RMB/person in canteen) and expats (in Villa)
- **Subsidiary role**

If we look at the role that the subsidiaries have within their global structure (Figure 54), 70% of them contribute to less than 10% of their total revenues. As some of them mention, the subsidiaries are encouraging the company to grow abroad but have a high pressure to obtain economic results.

“The HQ see us with curiosity and encourage us to get results” (A2, 2013).
 “Our subsidiary in Kunshan is pushing our organization to grow outside, using China as LCC platform for suppliers” (A3, 2013).

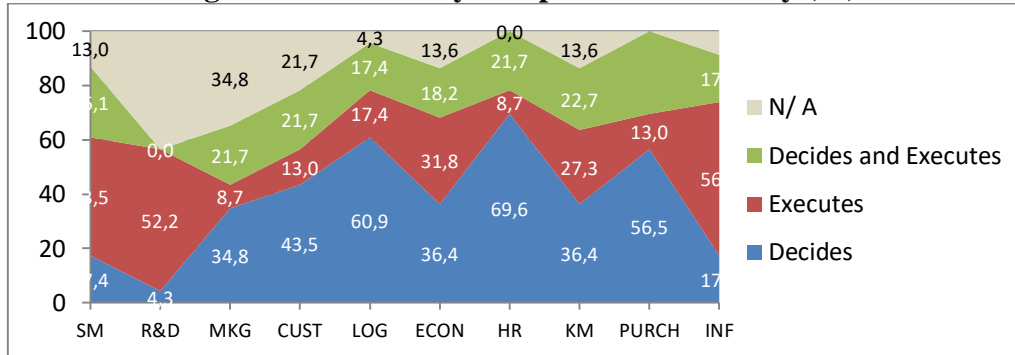
Figure 54. Revenues generated in the subsidiary
 (% company’s 2012 total revenue)



Source: own elaboration

As mentioned before in this research, in general terms the subsidiaries have a low decision power. If we look closer at the activities (figure 56), those areas where they have more decision power are related to HR, logistics and purchasing.

Figure 55. Subsidiary role per area of activity (%)



Source: own elaboration

On the other hand, in terms of information systems, research and development or strategic management they are mere executors of what the HQ has decided. In research and development and marketing many mentioned that is “not applicable” because they do not sell in China (maybe their main reason to go there was to produce for example) and the R&D function is something they have not transferred to the subsidiary yet.

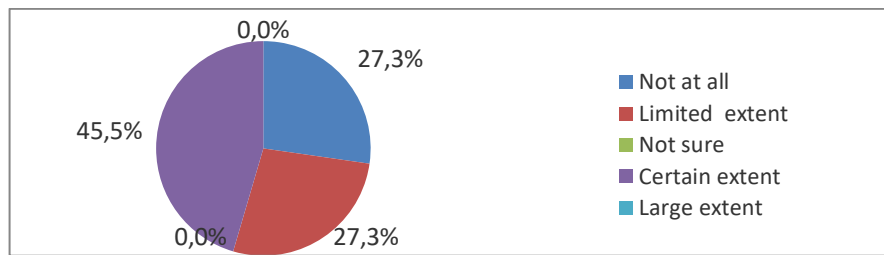
“We are an information provider, while the HQ is the decision maker in terms of the strategy” (A5, 2013).

“Here we are only into production. This makes it easier to transfer knowledge from/to the subsidiary as it is mainly unidirectional” (A4, 2013).

“The subsidiary helps the mother company to manufacture certain parts and more important, it helps to provide more possibilities to the local market (depending on the budget and local customer needs). It has a strong role on developing the company’s brand in China and it also give after sale service” (A9, 2013).

“We need to coordinate many decisions with the Company for global optimization (purchase, developments, investments, cash flow, ERP) (A12, 2013).

Almost 73% of the subsidiaries adapt their product and services to the local customer needs

Figure 56. Local adaptation of the product/ service

Source: owned elaboration

This configuration about the decision and implementation level and adaptation of their products seems to be related to a more competence- exploiting (Cantwell and Mudambi, 2001) role of the subsidiaries that act as market servicing and home base exploiting and non-innovating investments. According to Bartlett and Ghoshal (2002) classification, in terms of the configuration of assets and capabilities it seems that the subsidiaries in Kunshan are closer to contribute to the concept of the international firm, where core competencies are centralized and others decentralized. As for the development and diffusion of knowledge is concerned, they could play a transnational role if the knowledge is developed and shared jointly.

- ***Location and entry reasons***

This section will explain the main location determinants and entry reasons of the companies located in Mondragon Kunshan Industrial Park.

- **Location determinants**

In term of the *selection of China as a destination (space)*, there are different opinions on how the background of the top management influences the choice of the country.

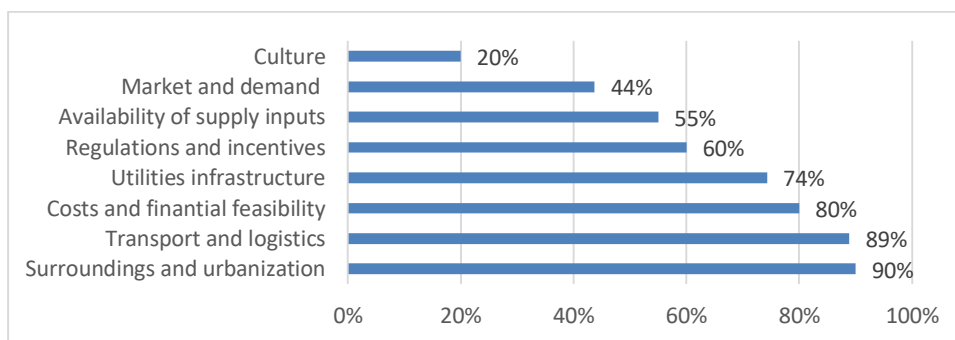
“The international exposure of the top management team is quite relevant in terms of assigning resources and advising properly on the choice of the country” (A1, 2013).

“The background of the top management is a key factor, but what matters most is the understanding of the country and the targets that want to be achieved” (A5, 2013).

“It is the market (customers) that determines that China is the country to enter” (A9, A12, 2013).

In terms of the *specific location (place)*, and from a previous research on the case study (exploratory stage), the most relevant factors were related to the surrounding and urbanization level (firms nearby, social services, hospitals, schools, etc.) and the transport and logistic system (rail, roads, airports, ports). Market drivers does not seem to have that much influence.

Figure 57. Location factors (relevance level %)



Source: Urzelai, 2011

Although it is located in the small town of Qiangden in Kunshan, in general it is considered that the location is well communicated and has a good transportation system and utilities infrastructure, it is near Shanghai, it has supportive local government and good supply network. Kunshan has more than 100 kilometres of local major and minor roads, and on average, each of them has four to six lanes covered with asphalt. It has convenient transportation and is well connected to Shanghai and Nanjing. The connectivity and urbanization externalities that made Shanghai and its surroundings an attractive location, sometimes compensated the lack of suppliers or clients in the area.

“We have suppliers here and for us is important to be near Shanghai to be faster when exporting and importing our products to/ from Europe and the USA” (A6, 2013).

“Our final clients are in the south but we deal with distributors in Shanghai and Beijing. In terms of activity and sectorial clustering, Shandong or Zhejiang would have been better locations but at the same

that may imply an information leakage. This area is very industrial so the location is not bad” (A7 2013).

“One of the reasons to select Kunshan was that logistically from here we could supply the whole of China. Here you are in the centre of the *developed China*, and 80% of the business will be in this area” (A12, 2013).

Costs factors were considered positive because when the park was established the market cost of the land was 224.000 RMB/mu but SPRI and Mondragon negotiated it with the local government and obtained it for 160.000RMB/m.u. However, some interviewees think the costs in the area in increasing very fast.

“The main reasons to establish in Kunshan are the land cost support of the local government” (A1, 2013).

“The companies of our sector are located in this area and here the implantation costs (land, labour, etc.) where less expensive than in Shanghai” (A5, 2013).

The country-of-origin effect was an important driver for firms to select that location, not just, because the nationality or the organizational linkages of the firms but also the size they could obtain through co-locating.

“There were no location factors to choose Kunshan from all China. Just the fact that other companies from the business group were established here” (A4, 2013).

“The determinant was other group companies joining the same place, being part of a group. Having other managers with experience and knowledge is a bit support” (A8, 2013).

“Having a Mondragon Industrial Park that has already relationship with the local government can be an important reason to establish the subsidiary here” (A9, 2013).

“Apart from the future expansion capacity (factory) and good access to key supply chain there were interesting links with MCC brother companies” (A5, 2013).

“Even if we don’t belong to Mondragon and based on my experience in China, at a company level what you need is size, and we could obtain

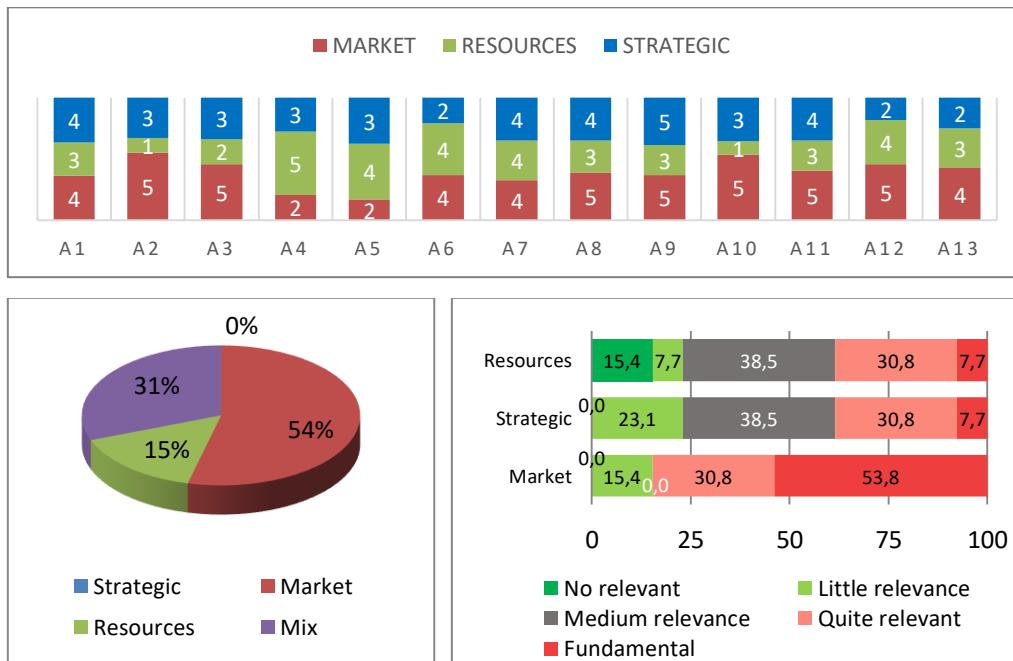
that by being part of Mondragon here in the park in Kunshan” (A6, 2013).

However, most of the firms mention a combination of location reasons that influenced their decisions.

- **Entry reasons**

Out of the 13 firms of the park that were interviewed, 54% entered due to market reasons. The following figures show the relevance given by the subsidiaries to market, resource and strategic seeking reasons at an individual and aggregate level. The pie chart shows the main entry reason of each of the subsidiaries.

Figure 58. Entry reasons (subsidiaries in MKIP)



Source: own elaboration, 2013

Market reasons were more important for A2, A3, A8, A9, A10, A11, A12 and A13.

“We came following one of our clients here in the park and other potential clients” (A2, 2013).

“The main reason was that the firms from our sector (suppliers, clients, competitors) were already here. We needed a plan to produce all the

product (and improve our product offering in China) as the other two plants we have in the country are specialized in one part of the product” (A12, 2013).

“We came to be next to our client” (A13, 2013).

“In our internationalization decisions, we follow our customer. We are proximate to our main customer” (A3, 2013).

Firms with higher resource-seeking reasons are A4, A5, A6, A7 and A12.

“At the end of the 90s many firms from the group were entering in China so we decided to enter through a partner distributor from the south but they copied us (there were legal trials, it went bankrupted, etc.) so we decided that to enter here it had to be on the maintenance business. We are analysing the Chinese market but it may be too late now. We believe that China will continue growing and we need to be here to sell (not just China but Asia), not to export. However, to sell in Vietnam for instance is easier, there is less competition and less risk of been copied. Even if we can generate business in China, we do not want to put it under risk, we want to protect our know-how. Our strategy anyway is to grow in Europe and we managed to have a formula that allows us to export from the Basque Country” (A5, 2013).

“We were importing the *heart* of the product, the most expensive part, from Germany until we established the production plant here in Kunshan. We had to be here to be competitive in cost” (A12, 2013).

Although none of the firms considered strategic reasons as their main entry motive, it is manly determinant for A1, A7, A8, A9 and A11.

Most of the managers agreed that a gradual entry strategy is advisable in China. They also acknowledge the need that firms have to approach China as a market and not only as a low cost country.

”Most of the companies I know have implemented gradually in China, in my opinion China is a difficult market that has to be explored little by little” (A2, 2013).

“A gradual process is required because the reality of China can be quite different from the home country” (A4, 2013).

“The country is changing at a high speed and decisions are to be made accordingly in order to be flexible and efficient at the same time. Our first step was purchasing in China through traders, then we opened our own Rep Office in order to manage directly our needs. The previous experience was useful to learn from mistakes and set clear goals for the future” (A5, 2013).

“Now China is not that much a low cost country for European companies and we need to see the country as a consumer firm, change our vision about China” (A6, 2013).

“China has many risks. It is better not to invest more than it is necessary. Market can change and laws change continuously” (A12, 2013).

- ***Proximity***

The main strategy to explain network structure is to compare the similarity between actors that are linked, with the similarity between the actors that are not linked, this is, their proximity dimensions (Boschma and Frenken, 2010). As we have seen in this research, there could be overlapping proximities among the member firms.

Regarding the cognitive proximity, all the interviewees have the same professional level (general managers) and all the companies are industrial manufacturing firms. Most of them (69%) have postgraduate level education. In terms of experience, the managers are more diverse. 54% of them have been 6 or more years working for those companies, and 54% (but not all the same companies) have more than 4 years of experience in China.

As for the organizational proximity is concerned, 85% of companies belong to the same business group (Mondragon) and 83% of them are cooperative firm in the home country, which makes them share an organizational culture. It is important to point out though, that Mondragon is a business group of a federative character, where firms share some inter-cooperation mechanisms but act as autonomous entities. Besides this, Mondragon Investments⁸ have a portion of ownership on some of the firms (40% for A3, 20% for A4, 25% for A9 and 40% for A13). At the host level, the firms are linked by a contract to the General Service company, where they define the terms and conditions of their contribution to the general costs of the park.

When addressing organizational proximity, it is difficult the headquarters' cooperative organizational culture and management style to be implemented in subsidiaries but managers who have incorporated those management practices throughout their working live try to transmit that to the local setting. In line with the literature, their own past history and experience also influences their actions.

“To transmit and apply the management model that we follow at home is up to each manager. I have worked in MONDRAGON Group for ten years, so I try to work in the same way here by having total transparency, explain their salaries to my workers clearly, developing a career plan for them, and so on” (A6, 2010).

Some subsidiary managers think that either one part of the profits of the companies should stay in the subsidiaries or part of the central funds for education and social projects should be allocated to social missions abroad.

The existence of firms that not belong to the same business group reduces the organizational proximity, which creates some disagreements on some common policies.

⁸Mondragon Investments (SPE) S. Coop. is a “business promotion firm” that aims the promotion, participation and creation of firms. It utilizes part of the MONDRAGON’s Central Inter-cooperation Fund (FCI) for its activity.

“Some member firms we agreed to pay 10% more than the average in the area. The companies that do not have our cooperative background may disagree but if they want to hire people, they would have to adapt to our social criteria. However, the pay differential (worker to manager) could be around 1:8 in the subsidiaries in Kunshan, much higher than the original 1:3 and the 1:6 we have nowadays in the Basque Country” (A7, 2013).

The social proximity of the expats in the park is quite high. When assigned to work in a foreign country, expatriates may experience stress and uncertainty, which can threaten their psychological well-being (Wang and Kanungo, 2004). One way of alleviating the stress is through the expatriates’ social network in the park. The park helps having a frequent interaction that builds trust among expatriates and enables the managers to share their concerns in a reciprocal way and find solutions for their daily problems:

“Proximity matters. To go for lunch together and being able to ‘get out of China’ for an hour and feel you are at home with your friends has a lot of value. I have been here 7 years and I know what I am talking about” (A8, 2013).

“You ask the rest of the managers: somebody has the same problem? How have you solved in the past? [...] You talk and somebody tells you: I have this problem, this company has closed... somebody two years ago had the same problem. You can make a phone call and talk about it” (A3, 2013).

Most of them have personal links out the office. Many of the companies and expatriates of the park were also members (membership requires the payment of an annual fee) of a wider community called *Basque House* which is an association for the Basque diaspora based in Shanghai, a city not far away from the Park. Culturally the expatriates share habits and practices. In fact, they organize several cultural events there.

“Those events are hard to organize alone. The Olympic Games were great, we were playing ping-pong, basketball and so on with our workers and the atmosphere was great” (A7, 2009).

China is known for its institutional complexity (uncertainty on regulations, etc.). Within the park, formally they only have bilateral contracts with the General Service company. As a park, they have two common informal agreements: non-aggression policy (not to hire others’ workers) and transparency (to share how much they pay to the workers or information about reliable suppliers).

For local employees there have been attempts to standardize their labour ‘handbooks’ (timetables, wages, etc.) but for instance, not all the companies in Kunshan allocate part of their workers’ salaries to housing fund. Some managers believe that to have some common regulations about the HR practices will help them reduce the rotation, creating and transmitting a common image. Some companies also commented that they are thinking to create a pension plan for workers.

There has been formal institutional support from the Basque government with delegates visiting the park and diffusing the ethos of mutual help and support towards expatriates’ and their families’ adjustment in China.

In general terms, the geographic distance between Spain and China is high. Taking the park as a unit, the members are located in a park of around 330.000 sqm. and share a common space (General Service premises) where they have lunch, rooms for expatriates (used as hotel) and social spaces. The industrial park is located, this is, Qiandeng Township in Kunshan, Jiangsu province, Yantze River Delta, China (around 50 km from Shanghai and 47km from Suzhou). The firms believe that co-location (understood here as geographical proximity) is a highly important driver and facilitator of interaction, cooperation and knowledge exchange, especially for late-comers such as A2 and A12 or small subsidiaries such as A4.

“Co-location is one of the most important factors for knowledge exchange. The reasons why we do not have so much communication with Basque companies in Kunshan outside the park is due to the physical location. With a company outside the park you can always go, establish a relationship and extend that visit to a dinner [...] but it is not as natural as with the companies inside the park” (A2, 2013).

“The co-location is very important [...] the face-to-face interaction makes us come up with things that are not a necessity, but unintentionally [they] come up, and they are positive [...]. There are some other Spanish companies around (outside the park) but we don’t have relation with them” (A12, 2013).

“In order to think like a group is good to be really close geographically. The good thing here is that just because we are so close to each other we get to know each other. Maybe if we were in different places we wouldn’t know each other, so it would be more difficult for us to ask someone” (A4, 2013).

It is remarkable that firms do not consider the geographical proximity to their clients, suppliers, etc. (business rationale) as the primary location factor. In fact, the organizational proximity (other firms from the same business group) is what derived them to locate there. The geographical and organizational proximity in the home country influences their co-location in the host country.

“For us the best place regarding proximity to clients and suppliers was Guangdong province. However, we decided to come to Kunshan because with other companies from Mondragon so as to benefit from the synergies, to share our experiences, to avoid management errors and of course to make friends and be motivated” (A7, 2009).

6.3.2 Social capital dimensions

Following the literature, we will describe the main elements of each of the dimensions that form social capital, i.e. the structural, cognitive and relational dimensions.

- *Structural dimension*

Within the structural dimension of social capital, we can describe different elements such as the density, hierarchy or centrality of the network, or even the heterogeneity of the members (Lindstrand *et al.*, 2011). In our case study Mondragon Corporate offices and the General Service Company of the Park (A1) play an important central role as a central member of the network that deals with the general management of the park. It acts as a subsidiary of Mondragon Group in Kunshan. This company plays the role of a network facilitator (Antoldi *et al.*, 2011) or mediator of the network, as it has a central position, loose ties between firms begin to take shape and the activities are mainly oriented towards facilitating of relationship development among the members. It is the community coordinator and leader who helps the community focus on its domain, maintain relationships, and develop its practice (Wenger *et al.*, 2002).

“General Services [A1] gets the information from all the companies, reviews it and distributes some reports. It would be interesting to have a broader picture, a broader collection of data from more companies” (A12, 2013).

“A1 organizes 1-2 meetings a year to get synergies” (A5, 2013).

As described before, its functions are to provide the general services of the park (canteen, utilities supply, etc.), support the members of the park in their establishment process (local government relations, licenses and registration formalities, etc.), attract investment and develop synergies among the members. This is mainly useful for firms that had recently landed in China.

“Investing as a group it was easier to fulfil the requirement of investment density (you have to invest a minimum amount of capital per “mu”), getting the project approval, setting up of the utilities, etc.” (A1, 2013).

“For the establishment process I think it was good in the beginning. Because you know, the relationship with the local government is not so easy, so it helps a lot” (A3, 2013)”

“In the beginning it helps, in the beginning it helps [...] I am thinking mainly about government, country and barriers” (A10, 2013).

In terms of governance bodies, they do not have any park executive director that is above the subsidiary managers. The manager of A1 has just a representative functional role (not executive).

The park has a semi-open membership nature. They do not accommodate joint ventures. The firms from Mondragon Business Group and the Basque Country, though, have priority to enter.

Expatriates have very frequent interaction and contact where they share both personal and professional issues. They get together every day in the ‘expat canteen’. Contact by telephone or email is also frequent but special importance is given to the face-to-face interaction that takes place at lunchtime.

“Every day at lunch time I meet them. We talk by telephone every week and by email the interaction is usually for business” (A11, 2013).

“Lunch time is face-to-face contact and [is] really important. Maybe the most isolated [companies] are the new ones because they are big [...] if they don’t come to have lunch with us they can lose that relationship more easily” (A3, 2013).

“The fact of going for lunch every day, the fact of being close... facilitates the face-to-face contact every week [...] it is the face-to-face that I think it’s important” (A12, 2013).

There are diverse factors influencing ‘who you talk to’ in the park. The strength of their interactions is determined by not only the characteristics of the firms such as the activity (some have punctual business relationships), the size of their historical reasons, but also by personal linkages and characteristics of the managers.

“Normally you have more frequent interaction with those with whom you have a friendship, of similar age, similar interests. One company in the park is our supplier so we also talk with them more frequently.

Another factor is the time/ experience in China. I am the person who has been for longer time in China so maybe I don't ask so much, but if you have just arrived in China you tend to ask more things to others" (A12, 2013).

"The interaction with members depends on the size of the company, historical reasons because we belong to the same division, and also because of personal linkages" (A4, 2013).

"We have more frequent interaction with one specific company (weekly or more) as they can supply us materials [...] with the rest, the interaction is mainly about human resource issues" (A7, 2013).

"We are A2's customer so we talk many times in a week (email, phone, face-to-face). With the rest of the firms we normally talk about government-related issues" (A9, 2013).

"I meet more frequently the companies that have the same suppliers or with those that arrived at the same time as we did" (A11, 2013).

There is one company from the same country-of-origin and business group that is located nearby the park but it is not a member of it (does not share services, etc.). However, as one of the park members mentioned, there could be future links with that firm too.

"We can share a warehouse and jointly buy compression tools, stainless steel, polyurethane, copper tubes, condensation and evaporation tools, etc. We have common clients and commercial channels and my company has already a name in the market. With our help, they can save a lot of money in the commercial establishment. Besides, we can offer one others' product to our clients" (A7, 2013).

As the park has been expanding and getting bigger, the relationships among the expatriates have also changed over time. It seems that this situation is changing the perception of the managers about their common identity as a park.

In terms of the network stability, since the park's creation, 2 firms closed down their activities but in general the number of firms have not only be maintained but increased. One of the main challenges that the firms have is employee rotation and although each firm have a different situation, they all agreed (non-written informal agreement) on not to recruit workers from other member firms and on establishing some salary levels, or at least to share the information about the salaries for certain labour-categories. Some members still think these standard policies could be developed further.

“If there was a leadership and some norms the salaries could have been more standardized but they are more standardized than what we think. Each one is a different story so it is difficult” (A7, 2013).

“I think that there is stability. Maybe the only thing that could affect is the rotation of the people that is one of the problems. The knowledge is on the people” (A11, 2013).

- ***Cognitive dimension***

Within the cognitive dimensions we can explain elements such as social cohesion, shared goals, cultural identity, etc. (Tsai and Ghoshal, 1998).

Although the goals of the network are not explicit, one of the managers of the promoting company summarize them as follows:

“The idea is that of finding synergies, create a common image, expand our size and develop lobby strength” (A1, 2013).

“Each company have some economic goals [but] we all have the similar models in our headquarters, we all try to approach similarly our subsidiary management style here in China ” (A9, 2013).

“We have individual goals but I suppose that all of the people want to establish here in China, they want to make their space in the Chinese market, they want to know about the Chinese market, they want to keep service here to the project in China (A2, 2013).

“I think that [there] are totally different [perceptions]. We know what is a cooperative, we know the values and I don't think my workers have this perception” (A11, 2013).

In terms of the problem resolution dynamics, they mention that cooperation among the firms have been helpful to solve some of their problems.

“There was some issue about the food for employees and it has been solved as now they have different menus that they can select; and now it’s solved because of the cooperation between companies” (A7, 2013).

In the park, different subgroups are evident depending on the entry date of the firms (they called themselves G4, G3 as the first 4 companies, the 3 that came later). Some managers argue that the “community” and a “collective” exists at the individual level among expatriates but that this identity is not expanded to local employees so there are different view about the collective identity of the park as a whole. However, there was a deliberate attempt from some expatriates to include the local workers in the course of claiming ‘who’ should be part of the collective identity.

“When I say people I say expats. I think here we don’t do enough [for] this sense of a collectivity among the companies but yes among the people. When I say people I say expats” (A7, 2013).

“It is collective with us [just expats] not collective with the local people [...] so you leave part of the community out of that. I guess the direct workers are more sensitive and will say that they do not have that collective identity. The Chinese workers do not officially meet other Chinese workers from other companies but sometimes it happens that through us I ask another manager about for example accountancy, purchasing... and we put our workers in contact for some issues” (A12, 2013).

The park is known as “the Spanish park” in the area and the logos and symbols also make people identify the park as “Mondragon Industrial Park”. Cultural icons from the Basque country are also evident in the park (Basque Cottage, traditional sports and paintings, etc.).

“Yes we have a logo in the gates. People identify with that” (A6, 2013).

“To have those Spanish firms located near you, a linkage with ‘home’ [...] is a big motivation” (A12, 2013).

Recognizing cultural differences and adapting management practices to the local culture can help expatriates to develop collective identity with the local stakeholders. Subsidiary managers try to increase the workers' participation and involvement in discussions and decisions but these cultural differences (mainly the concept of power distance) limit this type of interaction.

“We are trying to involve them but is not easy because they are not used to it. In the Chinese culture they are used to have a boss , the boss makes the decisions and he is right, there is no discussion about it if it is right or it is wrong and this is the most difficult problem I have” (A3, 2013).

Apart from the everyday work arrangements, social engagement practices - for example, sports events (i.e., sports day) and company outing events - were also organized by the expatriates to promote collective identity with the local workers. However, some companies think that they could do more on this regard.

“We are a small firm but to organize social activities is easier when you are 100 people” (A2, 2013).

“The sport meeting day is organized by the park and it helps share a culture among the workers” (A11, 2013).

“As a park we also organize the sport meeting day every year and professionally English and Chinese lessons, but the potential is much higher” (A4, 2013).

“With activities such as the sport day and the Korrika (all companies and workers participating) we develop a bit of that sense of common we-ness and that we are not here alone” (A12, 2013)

“In our company we do one trip per year to Hangzhou with our employees. During spring and summer our workers do bicycle trips, they arrange and our production manager help them” (A8, 2013).

“Chinese people are asking to prepare some parties so that they meet each other but we should do more about this” (A3, 2013).

The behaviour of proclaiming such expatriates' sense of 'we-ness' through COO colocation has heterogeneous perceptions on how could help or hinder their adaptation to the local culture. Managers of bigger companies that established in the park at an early stage believe that co-location is just positive to a certain point when it comes to the adaptation of European management styles to the Chinese context.

“Being located here people try to help and to make you understand the culture” (A2, 2013).

“[Country of origin co-location] could be worse to get attached to the local environment because you are living in your 'cloud' surrounded by your home people and you don't get used to the local culture. To keep the belongingness... to home, yes [is good]” (A7, 2013).

“It (COO agglomeration) has an opposite effect that makes you adapt less to the culture. It is good when you start because it helps you a lot but when you are growing, I think it is better to become just a bit independent. Because, if not, we are trying to copy European style” (A3, 2013).

“I got knowledge because experience, and because of being here in the cluster. [...]. I can explain someone better about one answer of Chinese guanxi or Chinese culture, and she will understand better from me than from Chinese” (A8, 2013).

- ***Relational dimension***

Relational dimension has to do with trust and reliability, the value that the partners give to the relationships, or issues such as the opportunistic behaviour or reciprocity among the members (Gooderham, 2007). As mentioned previously, the cultural and physical closeness, time that they spend together, the lack of opportunism on business activities and their connections back in the home country create a friendly environment in which the managers share experiences, trust and help each other.

“The trust between us makes us save money and reduce transaction costs. When you don’t have trust, you end up spending more money” (A7, 2013).

“[In joint projects I am confident that we will all do what is required] as our headquarters have relationships in Spain so we can trust each other” (A3, 2013).

“In general there is trust climate but [it] depends on the topics [and] things could be more or less clear [...]” (A12, 2013).

Among other benefits from trust, managers point out that having trustful relationships make them reduce their transaction costs.

“The point is that when you trust others you feel confidence to say what you think and put forward your opinion. The direct contact fosters that trust” (A12, 2013).

“For example to prepare the due diligence [...] when a company in the park has used one provider and tells me, I just take that and the transaction cost is zero” (A7, 2013).

Developing vertical *guanxi* (Su *et al.*, 2009) has been one of the main reasons why the park was created. The chief representative of the Basque Development Agency in China mentioned:

“It came up from a necessity. China is an extremely complicated country and help is always welcome. MONDRAGON managed to take advantage of the synergies of the 8 firms to multiply its negotiation power and political influence. This is highly important as the economy in China comes together with the politics and “*guanxi*” (personal relations) is crucial” (Aldama, 2007a)

Guanxi was often addressed by the expatriates as one of the key cultural values which they regarded as essential for them to adapt to in the course of interacting with external agents and gaining legitimacy in the host country, especially when it comes to building relationships with the local government. In line with Park and Luo (2001) they recognize that *guanxi* could be relevant

to secure favours at a personal level. They link it with the instrumental dimension of the concept (Su *et al.*, 2007), although they also relate it with corruption. This could be in line with what Graeff (2010) calls the dark side of social capital.

“It is due to these good relationships with the government that we managed to agree a fixed cheaper price of the land” (A1, 2013).

“When we talk about guanxi, we talk about how to influence somebody to make something for us. [...] Guanxi is always talking about corruption, many-many points are... in guanxi are some areas that it is very difficult to identify how to manage it. In Europe, for example, the network in this kind of networking is much easier, much clearer. In China there is a dark area” (A3, 2013)

“[...] for example with bank loans it is convenient for us to tell the bank people that we are from Mondragon Group other than we are A4 because it has more potential than A4” (A4, 2013).

“[Guanxi network within the industrial park is important] for government ties [...] but not with the government itself, actually with the guy who is in that position in the government. General service company [A1] deals with it and we try to go all together as we are a lot of foreigners. For any permit or anything you need, or if you have one problem with the government” (A11, 2013).

It is interesting to note that managers with many years of experience in China (as A12) also relate the concept of guanxi, closer to that of *renqing* in the sense that they linked to concept to the obligation of the firms to reciprocate to the community and being socially responsible.

“Part of taking care of guanxi is to take part in the events like that [talking about getting involved in local community events, for example, donating money when Sichuan earthquake happened]” (A12, 2013).

The general service company tries to develop guanxi network with local institutions and acts as a representative for the rest of the park members.

However, firms have different views on how effective is this service. This heterogeneous value could be due to the experience of the firms in Kunshan.

“A1 is the representative of all of us. The 50% of the reasons to be here in the park is that, the lobby. Thanks to the park, A1 does it and we don’t need to do it” (A12, 2013, established after 2010).

“From my point of view there is nobody strong enough from the park. I don’t think anyone from these, General Services [A1] can have a meeting with everyone from the government on behalf of Mondragon” (A7, 2013, established before 2010).

6.3.3. The outcome of social capital

As we found, social capital building has an impact on cooperation and knowledge sharing among the members. This section will describe that effect.

- ***Cooperation***

The outcome of the construction of social capital is, among others, the cooperation and knowledge sharing among the expats and member firms. If we analyse specifically what type of cooperation the firms have we find examples where the members collaborate to share information (about reliable suppliers and service providers, working conditions, etc.) or acquire a higher negotiation power (with financial institutions, logistic companies, etc.) and representation capacity or external image (common brand and lobby).

“For example for finance, A1 sent us a questionnaire in order to collect information to jointly manage some credits” (A11, 2103).

“The idea was to analyse how we could have more power to get financial resources for more than one company. All together we have more strength to reach better conditions” (A9, 2013).

“As a group we can negotiate financial conditions” (A8, 2013).

They believe the potential could be higher on HHRR, legal, fiscal, lobby, or organizational and managerial knowledge.

“To have important companies as X or Y (A7, A8, A9 are known brands) next to you gives added value to the group of subsidiaries in the park” (A14, 2013).

“Someone asked me about translation services. So far, I have worked with 5 different companies so I know which one works well and I can provide them with a name and a number directly” (A7, 2013).

“We should do more on professional activities for example industrial or HR issues” (A12, 2013).

Although they have explored opportunities for joint purchasing (stationary, consumables, packaging, etc.) those initiatives were finally unsuccessful due to the diversity of activities of the firms and the lack of resources or leadership to coordinate that.

“Last year A1 tried but finally we did not do anything because each company has its own standards, different products... and it is difficult to have real synergies [on joint purchasing]. About transportation for employees, the requirements of each company make it difficult to make it work. It could be that if other companies go to the same company and based on our big volume (we have two full buses) they get a better price even if they have less people, but it has not been done” (A9, 2013).

“We saved time by establishing here as we wanted to rent a workshop and thanks to all the companies that are in the park we hired a space to one of them which was very handy for us. [In] logistics is complicated to do something together (routes, timetables, etc.) [...] I think they were negotiating with a forwarder in the park but I did not get involved. [...] We got the land at a fixed priced because it was negotiated” (A12, 2013).

“We tried with standard material, packaging, office material but did not succeed [...]. We have a lot of small suppliers [...] and finally our purchasers have some relationships with them [our own suppliers] and

so on so, they are not going to make the effort to change, so [...] this should come from A1 or from a company that is really purchasing a lot” (A8, 2013).

“We are trying to use the same logistic company but it is something done from Mondragon Group at home to import thing from China” (A5, 2013).

If a missing but potential inter-cooperation activity will have to be pointed out, it is the workers education and training (technical, values and management) policy to maintain the coherence with the ‘human centred’ properties of Mondragon Group which should be regarded as highly important.

“For Chinese workers I would suggest something related to communication (it is very hard for them), proactivity, prioritizing (they don’t realize about the internal clients), time management. For direct workers no because that is very technical for each company” (A4, 2013).

“Nothing is done to get involved in local community events” (A12, A9, A5, A1, A2, 2013).

There can be divergent views from the agglomerated firms in respect to how effective the leading role is by the general service firm.

“I see a lack of commitment from the person organizing this initiatives [referring to A1]. I think that the GMs in general are quite interested in these kind of [joint] activities and initiatives and we share confidential information but the main problem is that it has been a lack of continuity from the organization in charge of this” (A4, 2013).

“I think it [A1] should be promoting and leading this type of [collective] activities. It is one of the reasons of the existence of that company, to promote that” (A9, 2013).

“We need someone to be a leader, the person who is in charge of that service [of finding for example a global carton supplier, etc.]. Not, of coordination” (A8, 2013).

“General Services Company is not leading anything; they react. If we have something, we ask and they do it, but they are not leading” (A11, 2013)

In a dense network with frequent interactions, firms usually focus on their close contacts, omitting those agents outside the network (Inkpen and Tsang, 2005). However, we could identify different agents that promote the inter-organizational cooperation of the firms and give support to the expatriates of the park. These agents can be internal (parent companies based in the home country or the General Service Company located in the park) or external (The Basque House of Shanghai).

“The people in the headquarters from Basque country think in the long-term... and think you are some companies together, you have to cooperate... maybe some people do not agree with all the rules in the park but I think we are open to help each other” (A7, 2013).

There is a feeling from the agglomerated firms about the need to strengthen the role of the park and increase the synergies among the firms in the future. As Antoldi *et al.* (2011) argued, forming and exploiting the network requires investment and time.

“I think that we have developed the capacity [identify value-creation opportunities and complementarities among the members] but we can do it better, we can improve. There is a long way to go [to integrate the network resources with the internal resources and create synergies]” (A2, 2013).

“I think we are still in a quite basic stage. Now it’s not the best moment [...]. We are not thinking of making any expense or putting any resource, involvement [...]” (A8, 2013).

As for their role and autonomy is concerned, they do not think that their autonomy level (within their own organizations) could influence or limit the inter-cooperation activities among the firms.

“The role doesn’t affect at all the cooperation. Each member of the park is independent and very few times we share information related to work and therefore the synergies are undervalued” (A5, 2013).

“The role of the subsidiary does not affect inter-cooperation in the park” (A9, A11, A12, A13, 2013).

- **Knowledge**

Although they are all industrial manufacturing firms, they do not compete against each other as their activities differ from each other, which increases trust and allows the exchange of more diverse knowledge, which could reduce the lock-in risk. Even if there are co-located firms from the same sector, the knowledge is transmitted easily through companies, especially from experienced companies.

“The trust is higher because we are not competing” (A7, 2013).

“The new companies that are coming here try to get some information from us. We have been here for 5 years and we are the first automotive company in the park. One month ago, we had a meeting with the new companies coming from the sector, they wanted to know how to go to the market and those things... For us it is not that beneficial but of the rest yes, and maybe in the future it could be better” (A3, 2013).

This could be linked to Nahapiet and Ghoshal (1998) when they mentioned that significant progress in the creation of knowledge and information often occurs by bringing together relates from disparate sources and disciplines. As the head of Asia Pacific region of Mondragon Corporation stated in an interview regarding the park in Kunshan:

“The shared experience in different sectors adds highly valuable knowledge in terms of designing new implementation and positioning strategies for new businesses” (*Fuentes, unkown*).

Their common feature is that they share the same country-of-origin, which facilitates the transmission of knowledge and information.

“For knowledge transfer is an advantage to work with home country companies” (A12, 2013).

However, the lack of complementarity in their activities could restrict or limit their cooperation.

“Each one is a different story so it is difficult. For me it’s very difficult to find welders and so I am ready to pay them more” (A7, 2013).

In spite of this, we found an increasing number of entrants from automotive sector. As Colovic and Mayrhofer (2011) found, in the automotive industry, the importance of production and, to a lesser extent, of R&D facilities based abroad is constantly growing, especially in emerging markets, which can be considered particularly attractive territories for MNCs.

The value or richness of the exchange is influenced by the years of experience of the companies, their size or the experience in the park.

“We are very small company and Chinese companies are very big. The industrial park helps us a lot [but] we have been here for 5 years and the new companies that are coming here try to get some information from us” (A3, 2013).

“If you are small company alone you will find more difficulties [...]. In some difficulties I consider that been here makes the solution a little bit easier. For the local government we are not A10 we are Mondragon. And the small company is coming here, we are examples here” (A10, 2013).

“We were the first ones. Maybe now it is much easier for companies who are coming, they have some examples” (A4, 2013).

“It helps because [otherwise] we would have done try-error-try-error” (A12, 2013).

Numerous quotes emphasizing the role of the network as the place where to share concerns and find solutions for their daily problems.

“You are facing one problem, you cannot believe that it is happening but someone tells you don’t worry this is normal here” (A8, 2013).

In terms of knowledge sharing, the firms have an implicit agreement of transparency so as to share information about salaries, labour “handbooks or guidelines, banks or reliable suppliers. Companies that has just landed in the park or are small are normally more willing to share information.

“About salaries we have given transparent information but I doubt that others have done it because there are going to be comparisons of how much one and the other is paying and that can have some consequences. [...] For suppliers for example A10 asked me about a hydraulic pneumatic supplier and I gave him the contact of one of the suppliers I know [...]. Normally the ones that are new and/or smaller are always more ready to share information” (A12, 2013).

“Chinese way is quite difficult, quite different. You never know if the quality is good... we have had many surprises because some companies in the last year and a half they have close down. In Europe, ok I have plan to go bankrupt and you have time maybe 3-4 months. Here they tell you: no, in two weeks, in one month I will close. But sometimes firms in the park help us because it doesn’t matter what sector you are [...] they also have to plan and everybody has the same kind of supplier” (A3, 2013).

“We share more information with some but there could be a joint purchasing potential for example with steel. I have worked with 5 translation services and someone asked me so I can provide them the name and number directly. The same happens with information about lawyers, recruiting firms, advertising and marketing providers, etc. You just call to get the information” (A7, 2013).

“We are working together with A7 with iron sheets and we even talked with them about joint purchasing. With A11 we have shared

information about tooling companies. It would be strange that if they are working for a company here not to be useful for you. We also have synergies on security and cleaning services that has an effect on costs” (A12, 2013).

However, there are companies that believe that sharing information about suppliers may not be that positive or helpful. Others think that something like a database should be created in order to keep and use that information.

“Depends on which suppliers but I consider that to be in one group for some suppliers is not good. This makes it a little bit complicated to introduce new suppliers, because there is a control by some suppliers... that happens with packaging, etc. They control the prices so they will be more expensive. The suppliers will use the way to protect their business; it is the game of suppliers. Even you even you would like to change its not so simple. We have some difficulties to get reliable suppliers. We share some (carton, transport, construction, etc.) but they are not the important ones” (A10, 2013).

“We should have a database with information about suppliers, banks, HR, etc. But the GM of A1 is very busy. People that do not attend those meeting do not get the information and we talk about purchasing modes, types of agreements, prices, how to close prices in terms on time, how to pay the orders, logistic issues, etc. We should systematize that information and save it, work on it. That will be an attracting thing for new comers” (A5, 2013).

They also share personal and practical information for their daily life.

“We share practical information such as house searching, resident permit, etc. For business we wanted to hire a person and I had a quotation [...] but I asked other GMs about other HR agencies and I got much better information which was very helpful for us to take a much better decision” (A4 2013).

“Socially it helps a lot to meet some other expats, have lunch together, meet to play “mus” (card game) for the daily life not only for the expats but for their wives” (A12, 2013).

The sharing of tacit knowledge is considered a strong point in the park that is facilitated by the frequent interaction they have during lunchtime.

“We have lunch together so for tacit knowledge the park is beneficial to a large extent” (A3, 2013).

“In our case tacit knowledge is way more important than explicit knowledge. Since due to our company culture most of the know-how is transmitted through learning by doing. This certainly increases the difficulty of establishing a subsidiary” (A9, 2013).

They recognize a need to strengthen the role of the park and increase the synergies among the firms in the future. However, for some of the firms, it is the delicate economic situation at home what limits their resource involvement.

“We should not repatriate the profits, but the problem is that nowadays we are making profits here to compensate the crisis at home” (A5, 2010).

“Now it’s not the best moment [to integrate network resources] nowadays companies really focused on the sustainability” (A8, 2013).

CHAPTER 7. CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH

Throughout this work, we have studied the importance of localization (agglomerations and clusters) in the transnationalization of firms. While in the first section of the research, we have looked at this analysis mainly from a general (transnationalization strategy) and specific (colocation and international social capital in China) theoretical point of view, the second part of the study has adopted an empirical approach. This later section included the description of the methodology (sample, cases, variables, etc.) and the analysis and discussion of the research findings.

It is important to mention that taking into account the research objectives and characteristics of our sample, the empirical analysis has combined quantitative and qualitative research methods in three different but complementary dimensions: challenges and liabilities of doing business in China, agglomeration and cluster effect and international social capital. With the quantitative analysis, we tried to obtain descriptive information related to the challenges and the COO cluster effect, while the qualitative analysis complemented this analysis by going deeper into the mechanisms and conditions under which *COO clustering* acts.

This Doctoral Thesis analyses agglomerations where the members share the same country-of-origin (German and Spanish firms) in the context of China, and due to methodological and research interest objectives, we focus part of the research on Basque subsidiaries there. Due to different reasons described in previous sections, the sample and the context used were adequate for our analysis, as they provided the conditions of being firms in an institutionally and geographically distant market that has great business opportunities in the future.

The final chapter of this research will point out two main aspects. First, the main general conclusions on the three proposed research questions that were

related to the three dimensions analysed in our sample. Second, the limitations and future research lines of the study, taking into account the challenges of this context (China).

7.1 Conclusions

As it has been mentioned in recent calls for research (Cuervo-Cazurra, 2017)⁹ the multinational company's home country matters. This argument relies on the idea that firms have interrelationships both at the home and host countries. Besides, another aspect that guides this current interest is that firms differ from each other, not only in terms of their resources and capabilities but also in terms of their institutional distance and legitimacy. Despite of this, current literature has paid limited attention to this area of research.

In this study, we look into the role that country-of-origin (COO) clusters have in the international expansion of firms in distant markets such as China. We move beyond the focus of initial establishment or entry mode (greenfield and acquisitions) and examine the under-researched but important question of how country-of origin agglomeration influences firm perceptions and outcomes in terms of clustering advantages, cooperation, knowledge and (international) social capital.

Specifically, in this part of the research we try to summarize the answers to those three questions that had guided this Doctoral thesis: 1) the challenges that subsidiaries face in China, 2) the externalities that COO FDI agglomeration provide, and 3) the way that geographic expatriates' communities of practice arise and construct social capital.

⁹Cuervo-Cazurra, A. (2017). How Does a Multinational Company's Home Country Matter? Call for papers *Journal of World Business* [online]. Available at: https://globaledge.msu.edu/content/uploads/jwb_howhomecountrymatters_callforpapers_160908.pdf

1. Which challenges are the subsidiaries facing in China as a result of the business environment and practices there?

Our findings show that, without taking into account the differences among the subsidiaries, firms are more concerned about external (e.g. China's economy), human resources and market issues but not that much on regulations, competition, or management. The highest challenge that managers point out is the rising labour cost while distribution problems are the least concerning factor. Thus, we could assert that among the major concerns, the fact that China's growth rate has fallen from the historic double-digit rate to about 6-7% or that wages are increasing by 15%-20% per year have some influence on the perception of the managers.

These results build on the research done by Perea and Ripoli (2014) that found that the highest difficulties encountered by Spanish firms in China were related to the lack of knowledge of the culture, dealing with human resources, the legal system or the local authorities. Although in general terms, regulations and government related challenges were not that high in our findings, it is true that human resource related difficulties are perceived by the managers as very high challenges.

Within that area of human resources, Perea and Ripoli (2014) found that recruiting and retaining suitable local human resources were considered the most difficult aspects. This goes in line with our research that shows that finding and hiring talent, retaining employees, and generating commitment of loyalty of workers were considered high challenges. However, our data shows that the rising labor costs is the biggest concern of all. This later factor was also relevant for the research done by Fernandez et al. (2013b) on European firms in China. We agree with Perea and Ripoli (2014) and Quer and Claver (2008), who emphasized that, Spanish firms, as compared to other European firms, have been relatively late in accessing the Chinese market and have not fully exploited the opportunities that China offers.

In any case, as different from those studies, our research provides a deeper understanding of the challenges, and evidences that these challenges differ depending on several factors. This heterogeneity is shown mainly in terms of the entry reasons, internationalization level, or experience of the firms and the managers in the local setting.

If we focus our reflexion on the distinctions among the key analysed aspects (entry reasons, localization, subsidiary autonomy or experience) we can find the following differences. On one hand, the firms that perceive higher levels of challenges are collocated subsidiaries with mix entry reasons that have low culturally distant internationalization, higher decision power and with higher experience both of the firm in Kunshan and of the general manager in China.

At a first view, co-located firms, have higher challenges than isolated firms. They are in the uncertainty area while isolated firms, which have resource and mix- seeking reasons, are in the hybrid uncertainty area. If this is true, is then the COO cluster a reasons or an effect of facing difficulties in China? Do firms go to COO clusters because they have higher levels of uncertainty or do they face more challenges because they are in those clusters?. However, a closer look at contingency tables (not considering all the challenges) does not see that clear association. Besides, firms with mix entry reasons, do not only have external and human resource related challenges, but also competition challenges.

As opposite to what Puig et al. (2016) found for Spanish manufacturing firms investing in China, the firms of our sample that entered seeking resources were not located in COO agglomerations but isolated. This makes us think that COO cluster could not provide cost benefits to its members, they could be some market related linkages among them or is a proper platform to welcome firms that do not seek cheaper or more available resources but would like to expand their market in China.

If we take into account the internationalization of the firms we can observe that a low level of internationalization has more influence on firms with mixed or resource seeking reasons that tend to be isolated, and have more challenges than firms with medium level of internationalization. This confirms our assumption on how low internationalization could be associated to higher challenges. Furthermore, opposite to what we may have expected, isolated firms do not locate alone because they have more experience or higher degree of internationalization. It is difficult to predict whether potential new investors in China would prefer to collocate or not. A high experience in the local setting (of the firm and the managers) has more influence on firms with mixed entry reasons, while firms with less experience that entered later in Kunshan are associated to market entry reasons. So new firms may go isolated when they have resource-seeking reasons and to COO clusters when they have market reasons. Surprisingly, firms and managers with more host country experience still face challenges (specially external and human resources related). So, having experience does not mean facing less challenges.

These results contribute to the work done by Quer and Claver (2008), who analysed Spanish FDI in China and associated a higher level of experience in the host country with entry modes of higher resource commitment (i.e. wholly-owned subsidiaries). Our results show that even if all firms of our sample were wholly-owned subsidiaries, their different levels of experience in the host country did not influence their location mode (isolation/ collocation) but they may have influenced their strategic reasons (as firms with less experience are associated with market-seeking reasons).

As for the future is concerned, it is expected that firms that focus on China will be increasingly be more interested in the internal market rather than in costs factors. According to our findings, these are the firms that perceive lower levels of challenges (especially external and competition). However, within that transition towards a market seeking strategy in China, firms may have mixed reasons to entry, and they can face high competition pressures.

On the other hand, higher decision level of the subsidiary is associated with co-located firms, meaning that co-location may provide them with an umbrella that facilitates the acquisition of a higher degree of autonomy, even though this may mean that they will face challenges in a higher number of functional areas. All this confirms our argument that states that firms with higher level of decision power will face more business challenges in China.

This research contributes to the findings of Shen (2015) in the sense that our findings show that firms accessing through a higher percentage in the ownership structure of their subsidiaries (WFOEs) not only decide to locate in ethnic clusters, but there are firms from the same country of origin, that in the same location, decide to locate their facilities outside this type of clusters. WFOE firms may go to ethnic clusters, but not always.

2. Which kind of externalities do COO FDI agglomerations provide?

This research adds value to previous research on country-of-origin agglomerations that proposed future research on the study of the drivers and mechanism the co-ethnic group formations (Stallkamp *et al.*, 2016). In this sense, literature has provided evidence that explain how networks enable members to collaborate and acquire, create and share knowledge. The configuration of the network generate collective benefits that can evolve over time. Highly collaborative groups could provide mutual support, psychological wellbeing and an improvement on performance. Geographic networks and the concentration of economic activity generate externalities or agglomeration economies that imply benefits for members, but it can also create diseconomies as the competition for productive factors. Colocation then is influenced by the clusters' net effect.

Much of the economic literature has studied how geographically bounded business networks influence business strategy. From an internationalization perspective, most of these studies have adopted a home-country view, without considering the existence of those networks at the host-country level. This later

aspect is important when MNCs from developed economies enter an emerging market as they often decide to co-locate near other FDI firms.

Country-of-origin agglomeration is taken as a strategy seeking choice where firms are attracted to locate nearby compatriot firms, especially when they seek market expansion. However, this type of clusters (COO) has not been much researched in the literature. From this point of view, we analysed *who* in the COO agglomeration benefits from that networking and *how much* they get from that interaction. For that analysis, we studied six constructs related to local market and industry knowledge and resources, legitimacy, networking, market and costs conditions.

In line with Stallkamp et al. (2017), MNE agglomeration has been focused on the study of industrial or sectorial links but also on the links that are based on the cultural or ethnic characteristics of the firms and the managers. Country-of-origin (COO) FDI agglomeration' has synergistic advantages and attainment of "legitimacy in the host-country environment" (Tan and Meyer, 2011). In line with Kim (2014), our findings support the managerial implications that may arise from this research in terms of the trade-off effect that country-of-origin clusters may have. In particular, it shows that managers, when taking a decision on the location of their facilities, should take into account the benefits or costs that this type of cluster offers in terms of the social life of expatriates or other externalities such as industry-specific knowledge.

This research supports previous studies that emphasize the importance of the network resources in supporting learning from the host context (Johanson and Vahlne, 2009; Fan et al., 2016). Qualitative data supports the idea that small firms and those with less experience perceive more value from co-location and this proximity is especially helpful to share tacit knowledge and offer mutual support. It offers higher benefits of surpassing the liability of outsidership, part of their networking externalities.

The general findings show that COO co-location provide high networking benefits but low market and industry-specific knowledge and resources (which

are usually higher in industry clusters). Collocation seem to provide a higher visibility, trust, professional and social support, tacit knowledge or capacity to collaborate and organize professional activities. Besides, it also provides opportunities to find business partners, but the cost benefits (especially on workers and infrastructure) on these locations are lower.

We found that the “industry-specific externalities” (knowledge about the sector, industry forecast, technology trends, etc.) are higher for isolated firms that seek resources. Besides, isolation could imply that the perception about the cultural adaptation is higher for those firms.

On the other hand, the externalities on legitimacy are not that clear, as quantitative analysis does not support that COO clusters provide high legitimacy while the interviews to the general managers of the subsidiaries, does.

The findings do not have clear evidence that shows the use of collocation in ethnic clusters as a way to acquire significant knowledge about the local context. There are dissimilar perceptions. Some managers think that the COO co-location along with other expatriates help acquiring cultural knowledge, about how to do business in China, etc. However, as other managers point out, if that community becomes too close, this may limit their cultural adaptation and integration capacity.

Our results extend the previous work done on the net effect of agglomeration by nationality on innovation (Kim, 2014) by classifying the clustering effect into different and various areas such as networking, industry-specific knowledge or legitimacy. Besides, this research argues, that the collocation status or entry reasons of the firms can also influence these perceptions.

Moreover, it is important to notice that firm’s entry reasons also influence diverse opinions on how their location mode provides market benefits. As compared to market-seeking firms, those that enter seeking resources or have mix reasons to enter that market tend to perceive higher significant benefits on

market factors. Specifically, market-seeking firms have lower benefits on legal knowledge, the speed of reaction to the market and competitors, or higher cost of qualified workers. Resource-seeking firms get less personal support but higher market knowledge or lower costs of qualified workers. On the other hand, firms with mixed entry reasons have higher benefits on legal knowledge, personal support, speed of reaction, or market knowledge. This is a remarkable finding that relates the entry reasons with externalities.

As we have noticed, an increasing number of firms from automotive sector are joining the parks. This could in the future generate an overlapping cluster effect where both country-of-origin and industry linkages co-exist. As the parks get bigger and bigger, different sub-networks could arise, and the capacity to organize activities could increase but the trusting climate could be different among the subsidiaries. As some expats argued, “*the more people in the park, the less people you know*”. However, dimension in China matters. Firms surpass some of their organizational distance (not belonging to the same business group, etc.) in order to gain size and build their reputation in China.

Considering the current managerial concerns about the cost increase in China, cost factors could be the crucial element that makes firms prefer isolated location modes in the future. However, as firms increase their willingness to tap the local Chinese market, they would also look for areas with high connectivity, so both situations can act as centrifugal and centripetal location factors.

In sum, in general we can say that Colocation *per se* does not have a positive or negative influence on subsidiaries, but that influence depends on the strategic motives why firms entered in China and the expectations of their investments there. These factors have shown that a heterogeneity exists regarding the benefits of the COO clusters and the perceptions of the managers.

3. How are COO clusters used as a platform where geographic expatriates' communities of practice arise and construct social capital?

The IB literature has evidenced that firm networks are important for the internationalization of firms. Studies on expatriates have shown that FDI clusters and agglomerations could have a positive effect on these managers as for facing difficulties is concerned. Besides, Gonzalez- Loureiro et al. (2014) argue, the coopetition (collaborating while competing) among expatriates could be a source of competitive advantage. Our research builds on previous studies on agglomeration by nationality (Kim, 2014) that called for research that explores the social networks of the expatriates in foreign market and how their relationships affect their strategies.

The reason behind that is that COO clustering strategy mitigates the risk of competitive disadvantage caused by LOO in distant markets and the network of relationships possessed by expatriates emerge as a strategic resource in their internationalization process: the international social capital.

As we have argued throughout this research, expatriates from compatriot FDI firms have been regarded as essential agents in this process (Meyer et al, 2011). However further research is needed to understand the mechanisms through which the communities of practices (CoPs) formed by expatriates construct and disseminate international social capital. The diversity of the activities and strategy can generate heterogeneous participation on that co-location and due the different nature of the expatriates, social capital can be managed and distributed through various mechanisms. This later is a fundamental aspect in distant markets, as the success of FDI goes beyond the mode of entry or control and depends on the proper management of the network (Alcacer and Chung, 2014).

In this sense, we explored the dynamic construction of international social capital through the communities of practices. This a new research approach, as it tries to relate the disadvantages of internationalization of firms that have fewer resources with the proper management of their networks. To analyze

this, we adopted a qualitative methodological approach through an inductive case study of expatriates of 13 Spanish subsidiaries co-located in China. As opposed to other research where the focus is on the analysis of social capital from a home country angle, our research lets us understand not only the influence that social capital has but also how it is created and exploited in this market. This framework constitutes an important contribution to our knowledge of the role of social capital increasing the competitiveness of the firms at an international level.

In line with Porter (2000), FDI small firms become very competitive when they operate together as they can benefit from “joint actions” (active advantages), “external economies” (passive advantages) and an efficient and effective “network” coordination that takes into account local aspects. For Mondragon Kunshan Industrial Park, the COO clustering constitutes one feasible formula for the subsidiaries to maintain their relatively small size and autonomy of the cooperatives (flexibility) while engaging in common activities and creating the structure that enable them to exploit the advantages of being conglomerated with other firms (efficiency).

As we expected, we found that the common location and place provides the necessary conditions for interaction to take place and thus to create the trust that is needed to acquire and share knowledge (suppliers, regulations, recruitment) and experiences (know-how), increase negotiation power, lobbying, image building, standardize policies and reduce transaction, infrastructure and general service costs. Thus, geographic proximity acts as a driver for social and cognitive proximity and for the reduction of institutional distance.

Besides, we have also noticed that agglomeration advantages are created by expatriates adopting the form of a community of practice that develops social capital, but this social capital is used in different ways. It is not the geographic colocation but the social capital that is dynamically constructed by expatriates which contributes to psychological wellbeing and trust building of the expatriates and which support firms to gain legitimacy in emerging markets.

In other words, we found that the structural, relational, and cognitive dimensions affect the construction of expatriate social networks, but the way of how this is created and configured differs among expatriates. These results are in line with other research such as that of Giuliani (2004). The newness of our results is that the value of social capital created within that expatriate CoP is more important in the first stages of establishment in the country, and for managers with less experience or no previous connexions there. Firms' heterogeneity in terms of activity and sectorial linkages adds value, knowledge and trust, but limits their cooperation opportunities. As for the managerial aspect is concerned, the similarity of the members (age, interests, etc.) fosters a more frequent interaction among them.

This particular case shows that there are different development stages for the the CoP to build and create value (in terms of social capital) through their co-location. The evidence showed a current situation that although it is still latent, it has the potential to move further from that "learning" stage towards the "knowledge creation" stage. We found that the role of a bridging agent or network facilitator is especially relevant for the development of the network to build vertical and instrumental guanxi and as a knowledge manager.

The evidence suggest that on one hand, the CoP needs intentional cultivation not to become spotty and on the other hand, a bridging agent plays a critical role on that process. It not only acts as an anchor firm but it facilitates the formal and informal interactions among the members, but also acts as an information provider thanks to the relational dimension developed in the park. Still, the dependence of the members on this agent as a leader or facilitating agent that acts as bridging actor between the internal and external environment could limit the exploitation potential of the network resources. These facilitators are important to develop inter-cooperation and improve the synergistic advantages of the park, but a strong leadership is required.

All in all, while existing research on liabilities of foreignness on IB is valuable, the emphasis on the adverse outcomes associated with cultural adaptation have

not given space to research about the advantages of diversity and cross-cultural management. For this, the results of this research suggests that the social capital generated in geographically bounded inter-firm agglomerations may contribute not only to the reduction of LOF and LOO but also to the cross-cultural knowledge sharing in the Asian markets. However, if the agglomeration comes to be too closed, it may burden the socio-cultural integration among expatriates and local workers or community, and thus, limit their capacity to exploit the value of diversity.

At this point we could say that, in general, networks, and specifically country-of-origin clusters, are a an appropriate entry and location mode choice to facilitate the transnationalization and entrance in distant markets by generating knowledge spillovers and reducing the liabilities that firms find when going abroad. By focusing on COO clusters, we build on previous research that have called for studies on clustering strategies that take into account the ethnic groups and cultural background of particular areas within China (Puig et al., 2016). These networks of geographical nature provide the necessary conditions to engage in international operations of distant markets due to the explicit and tacit knowledge that they facilitate to face this process. They construct international social capital dynamically. Within this construction, diversity matters, as it makes some members obtain value on different issues and at different levels. However, social capital can be intentionally coordinated and managed within COO clusters, which shows the potential of this networks as value adding platforms.

In sum, the general conclusions of the proposed hypothesis could be summarized as follows:

Table 58. Main conclusions

HYPOTHESIS	CONCLUSION
Hypothesis 1a: The challenges that firms, within their transnationalization processes, find in the host locations differ depending on their entry strategy	The heterogeneity about challenges is more influenced by the entry reasons than by co-location, especially on external and competition challenges. Firms with market seeking reasons have less challenges than those with mix reasons or seeking resources. Co-located firms face higher level of challenges but it is not clear whether COO co-location is the reason or the effect of challenges in China.
Hypothesis 1b: Within their transnationalization processes, the challenges that firms find in the host locations are magnified when firms have less internationalization, less experience and higher levels of autonomy.	The heterogeneity about challenges is more influenced by the internationalization level and experience of the firm and the managers than by the autonomy level of the subsidiary, especially on HR and competition challenges. Firms with low culturally distant internationalization and those with higher autonomy face higher levels of challenges. However, firms and managers with more host country experience do not have less challenges.
Hypothesis 2a: Country-of-origin clusters provide the necessary conditions to engage in international operations, especially for a first entry in a distant market.	Qualitative data supports this hypothesis: small firms or those with less experience obtain more benefits and perceive more value. COO co-location helps sharing tacit knowledge and providing mutual support and contributes to surpass the liability of outsidership, especially for market seeking activities.
Hypothesis 2b: The externalities from the country-of-origin cluster differ, being legitimacy and networking the most important externalities.	Heterogeneity exists. As opposite to isolated firms, co-located firms have higher externalities on networking but lower on market and industry specific knowledge and resources. There are contrasting perceptions about whether co-location is associated with the acquisition of local market knowledge and resources. Heterogeneity is mainly found in market conditions when analyzing firms with diverse entry reasons as resource seeking firms perceive higher externalities.
Proposition 3a: subsidiaries make use of network resources and in particular of social capital, in different ways.	Geographic proximity is the driver for social and cognitive proximity. Diversity matters, as social capital is constructed dynamically and differently depending on the length of the relationships, the nature of the relationship, the size of the firms, historical linkages of the firms or the years of experience of the managers in the country.
Proposition 3b: The heterogeneity on the subsidiaries' activities and managers' profiles enables the subsidiaries to learn, innovate and explore knowledge in the local setting.	Firms' heterogeneity in terms of activity and sectorial linkages adds value and trust, but limits their cooperation opportunities. As for the managerial aspect is concerned, the similarity of the members (age, interests, etc.) fosters a more frequent interaction among them. Social capital can be cultivated, coordinated and managed intentionally.

Source: own elaboration

As a result, we could describe some theoretical, practical and political contributions. Our work contributes to the agglomeration and network theories on IB by evidencing the potential that internationalization through geographical networks has. From this perspective, it also contributes to explain the formation of communities of practice and social capital at the host country level.

Another theoretical implication is the linkage of the literature in Economic Geography and IB, which contributes to disentangle the space and the place of MNEs. The macroeconomic approach of the place as a homogeneous space that has been the focus on the IB literature may not be totally adequate to analyse internationalization and location processes. We indicate in this research that the specific space has influence on the decisions of the firms.

From a practical point of view this research help companies take better localization decisions as there is an heterogeneity on the challenges faced, externalities gained and use of social capital from different location modes. The findings could help companies to take decisions regarding a localization mode that allow them reduce risks, gain legitimacy, share knowledge and thus be more efficient on their internationalization process

At a political level, the research can enlighten the design and implementation of strategies that support enterprises in the internationalization process. Institutions should consider and promote these platforms as a viable tool that facilitates the internationalization process of the firms. Similarly, managers and business practitioners need to analyse locations from a broader perspective that combines not only economic and business focused elements but also social factors.

7. 2 Research limitations and future research lines

This paper suffers from several limitations which future research may overcome.

First, the sample of firms was drawn from only one country, China. One should therefore not generalize the implications of our findings without examining the peculiar characteristics of China as a country. It could also be interesting to study whether this location model can serve as a springboard for development in other emergent markets such as Russia or India and for other FDI (i.e. Multilatinas) and if it can serve to overcome other liabilities as the emerginness.

Several authors have been positioned in favour of single case studies as a force of example that is crucial for the scientific development. However, in order to make this research more interesting, the replication of this research on different context (geographical, of different nationalities, etc.) could be considered. In the analysis of the third research questions we use exclusively a sample of Basque subsidiaries. Although studying investment from a single country and a single region allowed us to control home-country effects, this might reduce our capacity to extend these effects to FDI more broadly. Basque firms may differ from other Spanish or other countries in how they are influenced by home-country embeddedness. Thus, future research should define the boundary conditions of our findings by replicating the study in different settings or with firms from different Spanish regions.

The comparison between the German and Spanish firms being analysed in order to better understand the influence of home country nationality. Similarly, the research could be extended to other parks another provinces such as those identified in the exploratory research.

One of the main weakness of case studies is that case results can be shaped by the interest and perspective of the researcher. Ghauri and Gronhaug (2002) highlights that case research, unlike surveys where it is more routinized,

requires the researcher to control the situation, adapt and ask the right questions, and develop trust. By developing a theoretical framework, structured approach and a case protocol we controlled the scope and guide the collection of data. However, the inclusion of more researchers that double-check the qualitative analysis could add quality to the future development of this research.

Besides, we believe that future research should focus on the whole network by considering data from local employees or institutions. The researcher collected data from more than 370 workers in the Mondragon Kunshan Industrial park but due to time limitations, this data has not been considered in this research. Future research that compares the perceptions of workers and managers could add value to the study and extend our knowledge about the external embeddedness of the network beyond the community of expatriates (country-of-origin and local network of practice). Furthermore, it would be interesting to compare the perceptions of the promoters and general service firms with those of the subsidiaries.

This specific research could be the base to further analyse the effect of social capital on the performance, future development or survival chances of subsidiaries. Further analysis could include additional variables that were not taken for this specific research (the location and amount of future investments in China, revenues, ROA, satisfaction level of the subsidiary, etc.).

Overall, despite the limitations, I believe that this doctoral work provides valuable insights to the understanding of the role of ethnic clusters in the transnationalization of firms.

APPENDIX

Appendix 1. Descriptive data of the sample: HQ, subsidiaries, managers

HEADQUARTERS IN HOME COUNTRIES									
Compa ny code	Member of Business Group	Country of influence	Legal form	Found ation year	Size category of the firm	Primary code NACE Rev. 2 *	Activity (description primary code NACE)	Type of entity	Weighted cultural diversity
A2	yes	Spanish	cooperat ive	1995	Large	7112	Engineering activities and related technical consultancy	Industrial company	Low (0-5)
A3	yes	Spanish	cooperat ive	1963	Very large	2.932	Manufacture of other parts and accessories for motor vehicles	Industrial company	Low (0-5)
A4	yes	Spanish	cooperat ive	1980	Medium sized	2120	Manufacture of pharmaceutical preparations	Industrial company	Low (0-5)
A5	yes	Spanish	cooperat ive	1963	Very large	2.822	Manufacture of lifting and handling equipment	Industrial company	Low (0-5)
A6	no	Spanish	Public limited	1979	Large	2599	Manufacture of other fabricated metal products	Industrial company	Low (0-5)
A7	yes	Spanish	cooperat ive	1973	Very large	2893	Manufacture of machinery for food, beverage and tobacco processing	Industrial company	Low (0-5)
A8	yes	Spanish	cooperat ive	1969	Large	3091	Manufacture of motorcycles	Industrial company	Low (0-5)
A9	yes	Spanish	cooperat ive	1957	Very large	2891	Manufacture of machinery for metallurgy	Industrial company	Low (0-5)
A10	yes	Spanish	cooperat ive	1971	Very large	2017	Manufacture of synthetic rubber in primary forms	Industrial company	Low (0-5)
A11	yes	Spanish	cooperat ive	1982	Very large	2751	Manufacture of electric domestic appliances	Industrial company	Low (0-5)
A12	yes	Spanish	Limited liability	2009	Very large	6611	Financial and insurance activities	Mutual and pension fund/Nominee/Trust/Trustee	High (>10)
A13	yes	Spanish	cooperat ive	1963	Very large	2932	Manufacture of other parts and accessories for motor vehicles	Industrial company	Low (0-5)
B1	no	German	Limited liability	1974	Large	2829	Manufacture of other general-purpose machinery	Industrial company	High (>10)

B2	no	German	Limited liability	1997	Medium sized	2229	Manufacture of other plastic products	Industrial company	Low (0-5)
B3	yes	German	Others	1917	Very large	2815	Manufacture of bearings, gears, gearing and driving elements	Industrial company	Low (0-5)
B4	yes	German	Others	1984	Small	-	-	Industrial company	Low (0-5)
C1	no	Spanish	Public limited	1958	Large	2822	Manufacture of lifting and handling equipment	Industrial company	Low (0-5)
C2	yes	Spanish	cooperative	1988	Large	2829	Manufacture of other general-purpose machinery	Industrial company	Low (0-5)
C3	no	Spanish	Limited liability	1995	Large	2550	Forging, pressing, stamping and roll-forming of metal; powder metallurgy	Industrial company	Medium (6-10)
D1	yes	Spanish	cooperative	1975	Large	2825	Manufacture of non-domestic cooling and ventilation equipment	Industrial company	Low (0-5)
D2	no	Spanish	Public limited	1932	Medium sized	2410	Manufacture of basic iron and steel and of ferro-alloys	Industrial company	Low (0-5)
D3	yes	Spanish	Public limited	1892	Very large	2420	Manufacture of tubes, pipes, hollow profiles and related fittings, of steel	Industrial company	Medium (6-10)
D4	yes	Spanish	Limited liability	2005	Medium sized	4690	Non-specialised wholesale trade	Industrial company	Low (0-5)
D5	yes	Spanish	Public limited	1985	Large	2651	Manufacture of instruments and appliances for measuring, testing and navigation	Industrial company	Low (0-5)

Notes:

A1 and B5 are park service companies that had been created in China (no HQ).

A1 subsidiary is the general service company whose property belongs to A4 (11,57%), A8 (27,57%), A11 (25,43%), A14 (35,43%).

Company A14 closed down its operations in Kunshan in end 2010 and the property was taken by A10

* Primary code NACE Rev. 2: German firms from WZ 2008. Spanish firms from CNAE 2009. Japanese firms from US SIC codes, etc.

SUBDIARIES IN KUNSHAN (CHINA)													
Co. code	Colocation	Sub. size	Total n. employees (2013)	Establish date	Main establ. reason	Rented/ owned facility	Activity Area	B2B /B2C	Other estab. in mainland China	Subsidiary's expected revenue for 2013	Investment plans for 2013 in China	Technology compared to HQ	Sub. sales in Asia (% total sales)
A1	Colocated	Small	17	2005	Mix	Rented	Engineering and services	B2B	None	Almost the same (-2 to 2%)	Increase	-	≥ 50
A2	Colocated	Small	5	2011	Market	Rented	Engineering and services	B2B	One more	Substantially higher (> 15%)	Increase	Same or higher	≥ 50
A3	Colocated	Medium	130	2006	Market	Owned	Tooling and systems	B2B	More than one	Substantially higher (> 15%)	Increase	Same or higher	≥ 50
A4	Colocated	Small	45	2005	Resources	Owned	Components	B2B	None	Almost the same (-2 to 2%)	Stay or decrease	Same or higher	< 50
A5	Colocated	Small	5	2009	Resources	Rented	Vertical Transport	B2B	None	Substantially higher (> 15%)	Stay or decrease	Same or higher	< 50
A6	Colocated	Small	16	2009	Mix	Rented	Machine tools	B2B	One more	Substantially higher (> 15%)	Increase	Lower	< 50
A7	Colocated	Medium	86	2006	Mix	Owned	Construction	B2B	One more	Substantially higher (> 15%)	Increase	Lower	≥ 50
A8	Colocated	Medium	53	2005	Market	Owned	Equipment	B2C	None	Higher (3% to 15%)	Increase	Same or higher	< 50

A9	Colocated	Medium	163	2008	Mix	Owned	Industrial automation	B2B	More than one	Substantially higher (> 15%)	Increase	Same or higher	>= 50
A10	Colocated	Medium	70	2011	Market	Owned	Automotive	B2B	None	Higher (3% to 15%)	Increase	Same or higher	>= 50
A11	Colocated	Medium	200	2005	Market	Owned	Components	B2B	None	Higher (3% to 15%)	Increase	Same or higher	>= 50
A12	Colocated	Medium	70	2011	Market	Owned	Equipment	B2B	More than one	Higher (3% to 15%)	Stay or decrease	Same or higher	>= 50
A13	Colocated	Medium	55	2012	Market	Owned	Automotive	B2B	None	Higher (3% to 15%)	Stay or decrease	Same or higher	>= 50
B1	Colocated	Small	25	2009	Mix	Rented	Vertical Transport	B2B	None	Higher (3% to 15%)	Increase	Same or higher	>= 50
B2	Colocated	Small	10	2007	Market	Owned	Industrial automation	B2B	More than one	Higher (3% to 15%)	Increase	Same or higher	>= 50
B3	Colocated	Small	11	2007	Mix	Rented	Industrial systems	B2B	None	Higher (3% to 15%)	Increase	Same or higher	>= 50
B4	Colocated	Small	28	2012	Market	Rented	Equipment	B2B	One more	Substantially higher (> 15%)	Stay or decrease	Same or higher	>= 50
B5	Colocated	Small	14	2011	Mix	Rented	Industrial systems	B2B	None	Substantially higher (> 15%)	Stay or decrease	Lower	>= 50
C1	Colocated	Small	25	2013	Mix	Owned	Vertical Transport	B2B	One more	Substantially lower (< 15%)	Stay or decrease	Lower	>= 50

C2	Colocated	Small	4	2011	Market	Rented	Industrial automation	B2B	One more	Substantially lower (< 15%)	stay or decrease	Same or higher	≥ 50
C3	Colocated	Small	3	2012	Market	Rented	Automotive	B2B	None	Substantially lower (< 15%)	stay or decrease	Same or higher	≥ 50
D1	Isolated	Small	20	2009	Resources	Rented	Construction	B2B	One more	Substantially higher (> 15%)	Increase	Same or higher	< 50
D2	Isolated	Small	20	2007	Resources	Rented	Household	B2C	None	Almost the same (-2 to 2%)	stay or decrease	Lower	< 50
D3	Isolated	Small	28	2011	Market	Rented	Automotive	B2B	None	Substantially higher (> 15%)	stay or decrease	Same or higher	≥ 50
D4	Isolated	Small	9	2005	Resources	Rented	Tooling and systems	B2B	None	Substantially higher (> 15%)	stay or decrease	Same or higher	≥ 50
D5	Isolated	Medium	70	2006	Mix	Rented	Equipment	B2B	One more	Higher (3% to 15%)	Increase	Lower	< 50

SUBSIDIARY MANAGERS				
Company code	Age (end of 2013)	Gender	Education level	Work experience in China (years)
A1	Less than 44	Male	Postgraduate or more	>4
A2	Less than 44	Male	Undergraduate or less	4 or less
A3	44 years or more	Male	Postgraduate or more	4 or less
A4	Less than 44	Female	Undergraduate or less	4 or less
A5	Less than 44	Male	Postgraduate or more	>4
A6	Less than 44	Male	Undergraduate or less	>4
A7	Less than 44	Male	Postgraduate or more	>4
A8	Less than 44	Male	Postgraduate or more	>4
A9	Less than 44	Male	Postgraduate or more	4 or less
A10	Less than 44	Male	Postgraduate or more	4 or less
A11	Less than 44	Male	Postgraduate or more	>4
A12	44 years or more	Male	Postgraduate or more	>4
A13	44 years or more	Male	Undergraduate or less	4 or less
B1	Less than 44	Male	Undergraduate or less	4 or less

B2	Less than 44	Male	Postgraduate or more	>4
B3	44 years or more	Male	Postgraduate or more	>4
B4	44 years or more	Male	Postgraduate or more	4 or less
B5	Less than 44	Male	Postgraduate or more	>4
C1	Less than 44	Male	Postgraduate or more	>4
C2	Less than 44	Male	Postgraduate or more	4 or less
C3	Less than 44	Male	Undergraduate or less	4 or less
D1	Less than 44	Male	Undergraduate or less	4 or less
D2	Less than 44	Female	Undergraduate or less	>4
D3	Less than 44	Male	Undergraduate or less	4 or less
D4	Less than 44	Male	Undergraduate or less	4 or less
D5	44 years or more	Male	Postgraduate or more	>4

Appendix 2: Questionnaire 1- Subsidiary and manager profile

Dear interviewee,

You have been asked to participate in this research by Berrbizne Urzelai, PhD candidate in MIK S. Coop. and Mondragon University, which is sponsored by the Department of Scientific Policy of the Basque Government and its programme for the training and development of researchers. Thanks for supporting this research with your collaboration, it is highly appreciated.

The aim of the research is to analyse the role that country-of-origin (COO) agglomeration has as an entry strategy in distant markets like China and its impact reducing the liabilities of the member firms. For that, we will like to collect some data about:

- The challenges and difficulties that your subsidiary is facing in China
- How your localization mode (co-located/ isolated) influences your activity
- How the network that is created among expatriates from the same country-of-origin is used to create a social capital that fosters inter-firm cooperation and knowledge sharing among the members.

The thesis focuses of the analysis of companies at the subsidiary level, and therefore your collaboration, as the highest representative of the subsidiary, is crucial for the successful outcome of the research.

The participation in the project is voluntary and nonpaid. If required, your identity and your company's will be confidential and anonymous (only used to meet the research objectives). Besides, if you have any concern about the questions or prefer not to answer them I will take into account your requests. You will have the right to review, comment on and/or withdraw information prior to the project submission. All interview notes, transcriptions or records will be kept in a secured environment and will not be used for any other purpose.

Participants will share their experiences, applied knowledge and more importantly their precious time. Thus, after completion of the study we will try to ensure that they receive recognition from both the business and academic community. The results and conclusions of the research will be available and sent to you after its submission.

If you have any questions regarding your participation in this project or any other concern, please feel free to contact me for more information.

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FOCUS OF THE QUESTIONNAIRE

This online questionnaire is not about the content of the research aim as such, but about the profile of each company and manager that is taking part in the study. This information will allow us to specify the contextual elements of each individual firm and thus, allow us to classify analyse the information collected taking into account the characteristics of the subsidiaries and managers under study.

Date:

• MANAGER

1. Full Name:
2. Company Name: 3. Current Position:
4. Nationality: 5. Year of birth:
6. Gender: Male Female
7. Educational background Undergraduate or less Postgraduate or more
8. Previous work experience in China No Yes If Yes, no. of years.....

• SUBSIDIARY

1. Establishment date (month, year): when you obtained the business licence:.....
2. Type of facilities (subsidiary in Kunshan): Rented Owned
3. Size of the plant (sqm): Total Built:.....
4. Legal form: State owned enterprise, Collective owned enterprise, Cooperative enterprise, Joint ownership enterprise, Limited liability enterprise, Shareholding corporation, WFOE/ enterprises with sole foreign investment, Other (please specify) ..
5. Activity, sector:
6. Does the subsidiary belong to any business group? No Yes If yes, specify name
7. Size of the subsidiary (number of employees):
8. Total:..... Direct:..... Indirect:.....
9. Number of other establishments in mainland China (representative offices, agents, distributor, sale offices, production plants, etc.)
10. Compared to the activity in the home country, what kind of products/services is the subsidiary in Kunshan producing/offering? Much higher technology, Higher technology, The same level of technology, Lower technology, Much lower technology, Don't know/ prefer not to answer
11. Establishment reasons (evaluate the importance level of these factors as reasons to establish a subsidiary in China)

	No Relevance	Little Relevance	Medium Relev.	Quite Relevant	Funda mental
Follow or to be closer to customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reduce Costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Growth: increase global turn over and market share	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fight international competition: market position	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fight Chinese competition	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
It is needed to be in China: company image, future	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

12. Which location factors determined the decision taken to establish or not your subsidiary in Kunshan?.....

Note: Labour costs, availability of human resources, land cost, construction costs, support of local government, development incentives, transport and communication, quality of life, growth trends, business climate, etc.

13. Which location factors determined the decision taken to establish the subsidiary inside/outside Mondragon Kunshan Business Park?.....

Note: Site configuration and size, services provided utilities, future expansion capacity, adjacent uses, links with other industries, etc.

14. Please specify which level of autonomy and role does the subsidiary have on these activities and processes (if it decides, executes what has been previously decided, both, or that activity is not applicable)

	Decides	Executes	Both	N/A
Strategic Management: mission, values, strategy, management plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
R&D: technology and new product development, etc.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Marketing: product price, market research, sales, advertising	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Customer management, satisfaction	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Logistics, distribution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Economic and Financial Management: accountancy, cash management, audits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
HR management: selection, recruitment, contracting, promotion, training remuneration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Knowledge management: generation, encoding and storage, transfer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Purchasing: prospecting, selecting, evaluating suppliers, terms and conditions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Information systems: ERP selection, hardware, support programs, selecting IT suppliers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
If other (please specify)/				

15. What is the subsidiary's expected revenue in Kunshan for 2013 (compared to 2012)?

- Substantially lower (< 15%) Lower (3% to 15%) Almost the same (-2and to 2%) Higher (3% to 15%) Substantially higher (> 15%)

16. Is your market B2B or B2C? B2B B2C

17. To what extent does your subsidiary adapt the product/ service to the China market?

- Not at all Limited extent Not sure Certain extent Large extent

18. What percent of the total subsidiary sales do you sell in Asia? <50% ≥ 50%

Appendix 3: Questionnaire 2- Challenges in China

This online questionnaire will focus on analysing the challenges that the subsidiaries are facing in China. Please answer the questions provided. Any doubt or clarification will be treated during the interview. The challenges are classified into 6 different groups.

To what extent is your subsidiary in Kunshan facing these challenges?

	1				5
	Not at all	Limited extent	Not sure	Certain extent	Large extent
External challenges					
Fierce competition	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Economy slowdown in China	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Government policies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Slow recovery of global economy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rising raw material cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
RMB appreciation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Legal environment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Local protectionism	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
If other, please specify					
Management challenges					
Corporate governance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Distribution problems	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Finance related difficulties	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
IP infringement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Services and materials quality	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Support from head office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
If other, please specify					
Human Resource challenges					
Finding and hiring talent	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rising labour costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Generating commitment and loyalty	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Unrealistic expectations of young	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Difficulties in firing employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Retaining employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Unwillingness to relocate	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Unethical behaviour	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
If other, please specify					
Government Regulations and Policies challenges					
Macroeconomic policy adjustment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Unclear, changing regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corruption	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Regional disparity in policy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Government involvement in economy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Stricter regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Obtaining required licenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Environment protection policies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
If other, please specify					
Competition challenges					
Chinese competitors are getting stronger	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Unfair competition	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Unfair advantage of stateowned firms	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Foreign competitors are getting stronger	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Insufficient law enforcement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
If other, please specify.....					
Market challenges					
Uncertain behaviour of customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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Suspicious relationships and distrust on customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Result oriented customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Customers budget and plan less	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Takes time to develop relationships with clients	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
If other, please specify					

Appendix 4: Questionnaire 3- Cluster effect

We are trying to analyse whether the firms established in the same physical location along with other subsidiaries from the same country-or-origin (COO) obtain advantages.

To what extent (from 1 to 5) does your localization mode (co-located or isolated) positively influence the following factors?

Note: please consider not just the general services offered but also the direct interaction among the firms

Cluster Effect (positive influence of location)		1				5
		Not all	Limited extent	Not sure	Certain extent	Large extent
1	LOCAL MARKET KNOWLEDGE AND RESOURCES					
1.1	Knowledge and capacity for the establishment process and to surpass country entry barriers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.2	Knowledge about how to adapt and transform your management routines and business practices to the local setting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.3	Knowledge about the legal environment, norms and institutions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.4	Knowledge about culture, religion and language in China	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.5	Find local workers familiar with your home language, culture, infrastructure, entertainment, markets, etc.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.6	Time you spend searching for country-specific information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	INDUSTRY-SPECIFIC KNOWLEDGE AND RESOURCES					
2.1	Knowledge about industrial forecast and competition	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.2	Knowledge a about suppliers' behaviour	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.3	Access to specialized intermediary quality goods and services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.4	Find specialized and qualified labour familiar with your activities' needs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.5	Knowledge about technology trends	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.6	Access to technological resources	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.7	Protection against expropriation (of technological know-how, etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.8	Innovation capacity: product/ process/ organizational/ marketing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.9	Time that you spend searching for industry-specific information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.10	Productivity, efficiency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.11	Access to productive inputs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	LEGITIMACY/ REPUTATION					
3.1	Gain normative legitimacy: follow norms, standards, accreditations, procedures, etc.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.2	Gain pragmatic legitimacy: fulfil the interests of stakeholders	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.3	Gain cognitive legitimacy: pursue objectives, and activities that society understands	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.4	Knowledge about how to achieve local host country legitimacy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.5	Gain legitimacy spillovers generated by previous entrants from the same country or due to network and interlinks back home	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.6	Firms' visibility and representation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4	NETWORKING AND SOCIAL INTERACTION					
4.1	Access to tacit knowledge and share experiences	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.2	Likelihood of collaboration to share information that increases your competitiveness and profitability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.3	Cooperation and integration of social activities with other firms	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.4	Cooperation and integration of professional activities with other firms	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.5	Efficiency and access to public resources and business supporting programs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.6	Personal support	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.7	Professional support	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.8	Liability of outsidership and guanxi	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.9	Trust developed due to interaction in formal networks (business associations, etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.10	Trust developed due to interaction in informal networks (personal and family, associations, etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.11	Gain trust among other firms	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	MARKET CONDITIONS					
5.1	Motivation to improve the performance due to the demands of highly competitive local customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.2	Motivation to improve the performance due to the demands of highly competitive local competitors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.3	Firms' chance of survival	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.4	Speed of reaction to competitor's and customers' moves	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.5	Knowledge about market and local customer's needs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.6	Access to customers and new sales opportunities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.7	New business opportunities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.8	Find business partners	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	COST ADVANTAGES/ SAVINGS					
6.1	Transportation/ logistic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.2	Transaction costs (due to trust and direct contact)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.3	Specialized input suppliers and business services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.4	Qualified and specialized workers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.5	Infrastructures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.6	Technology and R&D	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.7	Specific incentive schemes (from Government)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.8	Financial resources	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.9	Physical resources: plant, land, equipment, etc.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- Is there any other factor you consider important and that it has not been mentioned?
- What do you think it can stop the companies from establishing a subsidiary within this kind of (country-of-origin) industrial zones/ parks?

MANY THANKS

Appendix 5. Getting access to interviewees

Email- Spanish example



Berrbizne Urzelai <burzelai@gmail.com>

tesis doctoral

Berrbizne Urzelai <burzelai@mik.es>

6 February 2013 at 22:16

Estimado Sr. /Sra.

Soy Berrbizne Urzelai, doctorando en **MIK S. Coop.** bajo la supervisión del **Dr. Jose María Luzarraga** y investigadora visitante en **CEIBS** bajo la invitación del **Dr. Klaus Meyer**. Por la presente quisiera solicitar su participación en el trabajo empírico de la tesis doctoral "**Co-location and social capital in country-of-origin industrial agglomeration in China: Evidence from Mondragon Kunshan Industrial Park, East China**", la cual está financiada por la Dirección de Política Científica del Departamento de Educación del Gobierno Vasco.

Tras mi previa estancia en Kunshan en 2010 y gracias a la participación de algunos de los miembros que se encuentran trabajando para empresas del parque (mila esker!) pude obtener el Diploma de Estudios Avanzados (DEA) con el que finaliza el periodo de formación y se accede a la fase de investigación de la tesis doctoral. Por tanto, me encuentro en la fase final de la tesis en la que la recogida de datos es de suma importancia.

El objetivo del estudio es describir y analizar cómo están configuradas y relacionadas las diferentes dimensiones del capital social (estructural, cognitiva y relacional) en redes de filiales aglomeradas de tema país en China y cómo esta configuración afecta a la inter-cooperación e intercambio de conocimiento entre sus miembros. Adjunto ficha que explica brevemente el propósito, proposiciones y metodología del mismo.

La tesis se centra específicamente en el estudio del caso de Kunshan por lo que es crucial contar con la colaboración de los miembros del parque. El contenido de las entrevistas o cuestionarios será auto-administrado y la información recogida será totalmente confidencial y anónima, y solo se utilizará para cumplir los objetivos de la investigación. Las empresas participantes aportarán sus experiencias, su conocimiento aplicado y su más que valioso tiempo. Es por ello que procuraremos que tras la finalización del estudio puedan recibir el reconocimiento de la comunidad empresarial y académica además de transmitirles los resultados y las conclusiones de la investigación.

De tal modo, desearía solicitarle su colaboración en el proyecto y disposición para realizar entrevistas personales durante mi estancia en **China del 18 de Febrero 2013 al 10 Mayo 2013**. Quedo a tu disposición si requieren más información o desean establecer fechas para las entrevistas.

Les reitero mi agradecimiento su colaboración y su atención,

Atentamente


Berrbizne Urzelai

Tel. Spain: +34-652711705

Skype: Berrbizne

burzelai@mondragon.edu

burzelai@gmail.com

 **PhD BERRBIZNE MIK S. COOP..pdf**
323K

Appendix 6. Interview guide: Social capital

Co-location and social capital in country-of-origin

industrial agglomeration in China

*-Evidence from Mondragon Kunshan Industrial Park, East
China-*

1. SOCIAL CAPITAL

1.1. STRUCTURAL DIMENSION

1.1.1. Network ties

- How often do you interact with people from other subsidiaries in the park? With whom? For what? Which channel do you use (email, telephone, face-to-face, through 3rd parties, etc.)
- What are the reasons that drive your firm to have more constant and frequent interactions with some firms?
- What are your relationships with other park members like?
 - Are these relationships based on friendship and personal ties? With whom? Any example?
 - Are these relationships based on business or professional ties? With whom? Any example?
- Do you know the managers and expats working in the park?
- Do you know the workers of other firms? Which ones? Why/ how do you know them?
- Who are the most isolated companies in the park? Why? Does this affect their competitiveness?
- Are there any vertical network relations (backward or forward integration)

1.1.2. Network configuration

- How heterogeneous are the people in the park? Which differentiating features do the people in the park have?
- To what extent do differences tend to divide or unite people in the park?
- How do you think the diversity (of businesses and people) is beneficial to acquire new information and access new opportunities?
- Where do you put the boundaries of the network? (linkage to Anaitasuna, Kunshan area, etc.)
- Would you consider them more or less closed or intimate circle of relationships in the park?
- Which firms do arouse admiration? Why?
- What role does the geographic proximity of firms play in their integration, communication and knowledge exchange?
- How does the “park governance” work? (Committees, control and decision process, coordination, organization, etc.)
- What kind of hierarchy and positioning do the members have within the park? (who has influence and over what). How does it influence the dynamics and functioning of the park as a whole?
- Is there any specific associative form among the members?

- Do you think the group is at any specific stage (initial stage/ taking shape, structuring, maturity, productive, decline) of forming a formal associative form?
- Does the parks' structure help your firm access any of the following services? Which ones are included in the annual membership fee?

For workers

- Education and training
- Health services
- Housing services
- Restaurant and catering
- Leisure areas (cafeteria, sports...)
- Schools, kinder garden
- Transport
- Others

For companies

- Technology support
- Water supply and utilities
- Financial, banking, accounting
- Import-export, customs
- IT
- Logistics
- Marketing and communication
- Travel services
- Translation services
- Legal support
-

- Fiscal support
- HHRR outsourcing service
- Supplier seeking service
- Seminars, conferences
- Gardening
- Security
- Government relations
- Registering process
- Others

- Is leadership distributed and shared among all the subsidiaries or concentrated on one or a few companies?
- When there is a decision to be made in the park, how does this usually come about?
- Do you consider Anaitasuna and Mondragon the leader of the group in the park? Why/ why not? Is there any other entity leading collective projects?
- How do you select the leaders? Have you tried taking the role of a leader for any joint activity?
- Overall how effective is the parks' leadership? Why?
- How would you describe development of the group and the leader since its creation until now? Which major changes have they experienced?
- How is the strategy that the leader follows to consolidate the project in the future?

1.1.3. Network stability

- How closed /open is the network?
- How does a firm become a member? What is the procedure to be followed?
- Is there a high stability/ permanence of the firm members in the network? How do you think this could affect the knowledge sharing and inter-cooperation among the members?
- Does mobility exist among managers, technicians and in general, workers of the different subsidiaries in the park?

1.2. COGNITIVE DIMENSION

1.2.1. Cohesion

- What are the triggers for everyday conflicts and misunderstandings among members of the park and how do you solve them? Can you give me some examples?
- Do the park members help each other out? Do they do it often? What are some examples that you have experienced?
- Are there common standards among the firms?
- Is there equal access to services, opportunities and welfare benefits for all the workers?

- Is there an acknowledgement of social obligations/ external engagement and willingness to fulfill them? Is it within the tasks and priorities of the firms?

1.2.2. Congruence level

- Do park members have common goals (implicit or explicit)? What are they? Who and how are they defined?
- Do you identify any of these as common goals among the members of the park?
 - have access to external resources and opportunities
 - share risk and costs
 - gain complementary abilities
 - increase efficiency
 - learning from others
 - facilitate information exchange
 - coordinate interdependencies
 - overcome dilemmas regarding cooperation and joint action
 - nurture cultural adaptation
 - reduce institutional uncertainty
 - create a common identity
 - Others
- Are there business and social relationship between the members based on shared values?
- Does Mondragon Group apply its cooperative approach in China? If yes, how? To what extent? If not, why?
- What are the principles that define the management practices of the park? Do they differ a lot among subsidiaries?
- What do you understand by Mondragon Kunshan shared culture?
- Which instinctive sign or emblem is the park identified with? Have it changed over time?
- How has your home-country culture been adapted in China?
- Do festivities, celebrations, and business events organized by the members of the park help developing a shared culture among the workers?
- Which socialization mechanisms does your subsidiary use to transmit the corporate business culture?
- Does the park help transmitting your corporate business culture to your employees or adopting these mechanisms in cooperation with other firms?
- Is there a shared vision among the members of the park? Who defines it?
- Do you feel identified and part of a global vision as a park? Does it give you any orientation and guidance for your work?

1.2.3. Sense of we-ness

- Has a common sense of “we-ness” (collective identity) been established among the subsidiaries?
 - If yes, how did this common sense of “we-ness” come into being? Could you give me any examples?
 - If not, why? What do you see this common sense of “we-ness” would involve, for example, common aims, mutual share of suppliers, local government relations or others?
- How is this common sense of “we-ness” perceived by the parent companies?
- How is this common sense of “we-ness” perceived by the local Chinese staff members? Are there any cultural differences in the perception of the “we-ness” between the subsidiary foreign workers and local staff?
- Were/ are there any leaders developing a common sense of “we-ness” among the subsidiaries in the park? Could you explain what the leaders did/do to contribute to that formation?

- What are the benefits/advantages of this common sense of “we-ness”? Any fresh memories of any particular events that illustrate these benefits/advantages?
- What are the current/potential challenges of forming the common sense of “we-ness”? Any fresh memories of any particular events that illustrate these challenges? How did you and other subsidiary members act to respond to the potential challenges?

1.3. RELATIONAL DIMENSION

1.3.1. Trust

- Is there in general a trusting climate in the park that makes you deal with people easily?
- In joint projects with other firm members, are you confident that they will do what is required in the agreement?
- Do you have confidence on institutions, police, justice, legal system, media, government, etc. (local-provincial-national) with whom you deal with?.
- In a local dispute, would you trust the local authorities to come to a fair decision?

1.3.2. Commitment

- Do you consider the relationships with other members and people in the park important?
- Do you consider that the reputation of other firms with whom you maintain a relation can affect you and vice versa? For example when they fail with clients, banks, etc. Any experience or example?
- Are you ready to invest time and money in developing the relationships between the firm members and people in the park?
- Are they given any prize or incentive those firms that take actions or assume behaviors that benefit the group?
- Is there any sanction or punishment (could be socially excluded) for the firms that take actions or assume behaviors that are detrimental/ harmful for the group?
- Do you expect to be reciprocated when you help other members and share your valuable knowledge?
- Agreement level of the following statements

(1=Strongly disagree, 2= Disagree, 3=Undecided, 4=Agree, 5=Strongly agree)

	1	2	3	4	5
Subsidiaries are always interested only in their own activity					
If I have a problem there is always someone from other firm to help me					
I don't pay attention to the opinions of other firms and people in the park					
The park has prospered in the last 5 years					

1.3.3. Guanxi

- Does your subsidiary develop and use guanxi 1) for business ties and 2) for government ties? What is the role of other members of the park developing your guanxi capabilities?
- Is guanxi network important within the industrial park? What functional- economic value does it have? (Business deals, etc.)What other values does it have? (Increase in cultural competence, etc.)
- What is the difference between guanxi and other inter-organizational network structures in your home country?

2. COOPERATION

- Do you have previous experiences cooperating with other firms?
- Think about inter-cooperation activities or initiatives that did not succeed. What were the reasons for that? Lack of reciprocity, lack of confidence, differences in business cultures, partners not aware of the importance of collaboration, lack of commitment and will, etc.)
- Does your firm collaborate with other subsidiaries in the park on these areas?
 - Financial issues
 - Joint purchasing
 - R&D
 - Jointly sell products or services
 - Logistics
 - Transport of employees
 - Recruitment and selection
 - Training programmes
 - Organize social events
 - Organize business events
 - Activities in the local community
 - Shared experiences and knowledge embedded in human and social capital
 - Production
 - Get information about business issues (suppliers, clients, institutions)
 - Get information about personal issues (living, taxes, etc.)
 - Other
- How do people work with others in the park on joint projects and /or in response to a problem or crisis? Who initiates the activities? How are firms mobilized?
- Are some firms more likely than others to work together, and if so, why?

3. KNOWLEDGE

- Do you believe that sharing knowledge with other park members strengthens or weakens your performance/ your position in the company?
- Which knowledge do you share (tacit/ explicit) and with whom? Which one you don't share? Why?
- Do you have enough information to do your work properly? Do you get it from other subsidiaries in the park?
- Who is the contact person in the park that is responsible for getting the information that your company needs to improve its performance?
- Which are the characteristics of the firms with whom you have more formal and informal communication? (time in that market, productive activity, localization, size, position in the network)
- Why do you think that the communication flows easier with some companies? Is it different from the communication with firms outside the park?
- Is communication takes place mainly on your initiative?
- Can your firm communicate easily with any of the employees in Anaitasuna or other subsidiaries that have the information you require?
- Is there any reporting structure built up between the members of the park? Between Anaitasuna and the members, among subsidiaries, other
- What channels do park members use to spread relevant information (action plans, joint activities, legal information, others)?
- Does your subsidiary or you participate in business associations, professional circles, research institutions, policy agencies, etc. from where it captures new ideas, knowledge and business opportunities? Which ones? Which role you have in those? And the park (getting access, etc.)
- Is your subsidiary able to extend its connections and external networks as a result of the interaction with members in the park? (Other members provide you contacts with external actors belonging to different circles – help developing “bridging social capital”¹⁰). Any example?

¹⁰ Bridging social capital: refers to the building of connections between heterogeneous groups

- Can you think of any of your current involvement in a group or activity that came from your involvement in the relationships with the park? (e.g. someone suggested or introduced you to that group or activity)
- Does your subsidiary consider important those ties to acquire knowledge? For innovation?
-
- What kind of risks / uncertainties did you experience (when establishing and once established)? Does the network of subsidiaries in the park have to do with how you solved the problem?
- The information, knowledge, advice that your firm receives as a result of the contact with other members in the park

	Help us solve problems and coordinate functions within the company
	Help us increase our organizational capability to take decisions
	Help us learning new skills and capabilities
	Make us consider new opportunities and options and be more accurate in the long term plans
	increases the tacit knowledge of the members (know- how based on experience or intuition that is not written)

- If you want to get some information or resources do you opt to get it from people/ firms from inside the zone first?
- Are users willing to pay for services that network resources support? Can competitors access similar network resources (utility and rarity)?
- In general, do you think that as a group of Spanish/Basque firms in China you have develop the capacity to:
 - 1) Identify value-creation opportunities and complementarities among members and
 - 2) Integrate network and internal resources to create synergies?

4. OTHERS

- Are there any questions you think I have left out/ they are missing? Something important that I have not asked you about and I should know about these topics?
- Do you have any questions for me?

Appendix 7. Documents and archival Records

News about Mondragon Kunshan Industrial park

- inauguración Kunshan
- inauguración oficial Fagor Ederlan Kunshan-Cikautxo China-19sept2012
- inauguración oficial noticia_mccchina
- Irekia 2011 fagor arrasate
- Irekia abril 2011 lehendakari autoridades jiangsu
- Irekia marzo 2012 lehendakari visita danobat pune
- Irekia sep 2012 unda balance positivo china
- Irekia sep 2012 unda y soria inauguracion f. ederlan y cikautxo
- Irekia SEP 2012. bernabe unda apoyo implantaciones vascas en china
- Kunshan newspaper
- leire mancisidor articulo
- marca ormazabal tulankide 2013
- MARZO DE 2012 la region de kunshan quiere abrir oficina en Euskadi
- MCC en China 2007 aldama correo diario vasco
- mondragon assembly order for china
- MONDRAGON participa en el Día Nacional de China en Kunshan — TULankide MONDRAGON
- mondragon spri acuerdo 2012 gruas gh, assembly etc
- MONDRAGON takes part in the Chinese National Day in Kunshan — English
- Noticia 21 marzo 2012 parque mondragon india
- Noticia 28 abril acuerdo GV
- NOTICIA 2007 MATA DIARIO VASCO
- OIARSO CARDIVA NEW 2011
- Orbea 2011. Orbea launches the conquest of China from its base in Kunshan — Orbea
- orbea cierre en julio 2015.Orbea redefine su estrategia de fabricación — TULankide MONDRAGON
- Orbea launches the conquest of China from its base in Kunshan
- Orbea y Fagor Industrial cierran sus plantas en China_ Economía Mundial_ EITB
- ORIGEN KUNSHAN MCC
- Orkii Kunshan, premiada en China por sus principales clientes — TULankide MONDRAGON
- ormazabal ateriza sep2010
- Ormazabal noticia marzo 2011
- ormazabal y cikautxo planeando articulo
- respuesta josu ugarte a cierre orbea y fagor kunshan
- respuesta josu ugarte cierre orbea y f. industrial kunshan 24 abril 2015
- respuesta Josu Ugarte cierre orbea y fagor
- tulankide 2012. orona cierra en 2012
- tulankide 2013,BATZ celebra sus bodas de oro
- Tulankide 2013.Camara Gip. premia a M. Assembly
- Tulankide Fagor Ederlan abril 14
- VISITA LEHENDAKARI A CHINA PROGRAMA
- wingroup oiarso Mondragón redefine su estrategia en China
- zigor mondragon se concentra en china 2007 primer parque del estado en el gigante
- zigor sep 2012. ederlan y cikautxo El gran salto adelante de Mondragón

Investment guides

Kunshan



Kunshan German Industrial park



Mondragon Park Masterplan

Contents

目录

Design Concept

设计理念

Overall masterplan

总平面规划

Developed zones

分区设计

Residential Area 居住区

Business District 办公区

Sports Area 运动休闲区

Commercial District 风情商业区

Staff accomodation 员工住区

Hotel 酒店区

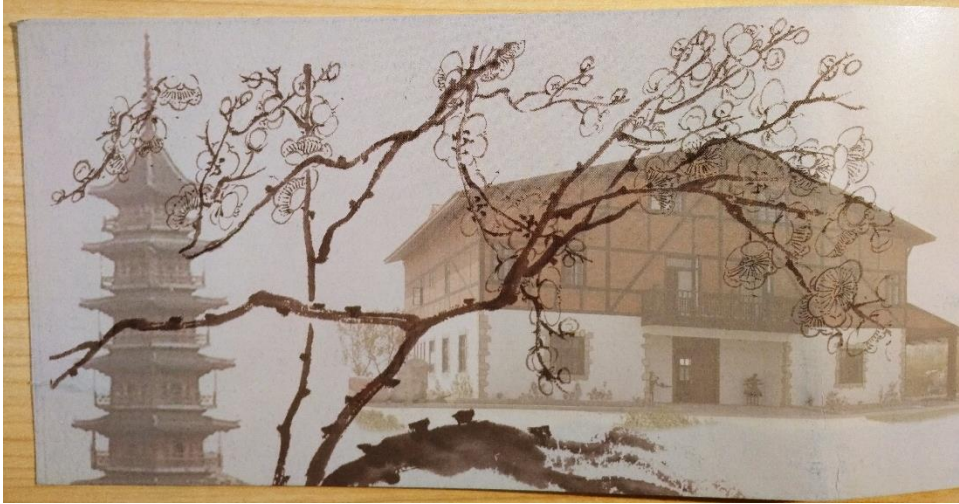
Exhibition Area 展览区



Source: LKS, 2015

Mondragon Park inauguration – invitation





Meeting Record (example)

ACTA REUNION

Asistentes: [REDACTED]

Lugar y fecha: Caserio Kunshan, 23 -10 - 08

Temas tratados:

- Presupuesto Anaitasuna [REDACTED]
- Actividades Anaitasuna 2008 y servicios a ofrecer para el 2009. [REDACTED]
- Gestion Visitas, [REDACTED]
- Devolucion Dinero [REDACTED]
- Building Tax [REDACTED]
- Property licence. [REDACTED]
- Varios [REDACTED]

Manager's notes about meetings (example)

TEMAS TRATADOS EN LA REUNION DEL PASADO 6/12/07

- 1- ENCOURAGE STATUS [REDACTED]
- [REDACTED] DORMITORIO. [REDACTED]
- [REDACTED] ALLOWANCE. [REDACTED]
- [REDACTED]
- [REDACTED] CHINA TELECOM. [REDACTED]
- [REDACTED] COMPRAS CONJUNTAS. [REDACTED]
- [REDACTED] IT [REDACTED]
- [REDACTED] TRANSPORTE. [REDACTED]
- [REDACTED]
- [REDACTED] ORGANIGRAMA BUREAUS
- 10- CHOFER. [REDACTED]

En cuanto a los puntos sobre los Salarios [REDACTED]

Joint services proposal

[REDACTED]

Company logo hidden due to confidentiality issues	Company logo hidden due to confidentiality issues	Company logo hidden due to confidentiality issues
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Premisas:

- > Para todo análisis, servicio a contratar [REDACTED]
- Respecto a la coordinación [REDACTED]
- Estimamos [REDACTED]

Servicios Generales propuestos por [REDACTED]

- Informe fuentes de MOD: [REDACTED]
- Análisis Política Retributiva: [REDACTED]
- Contratación conjunta [REDACTED]
- "Ganarse" al Bureau [REDACTED]
- Planes de Formación [REDACTED]

Appendix 8. Physical artifacts

Photos Mondragon Kunshan Industrial Park



DSCI0031



DSCI0032



DSCI0033



DSCI0034



DSCI0035



DSCI0036



DSCI0037



DSCI0039



agui puerta



agui



Fagor Arrasate



Orbea



Wingroup



Fase 1



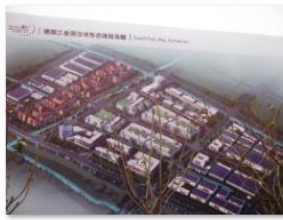
Fase 2



Fase 3



Photos Kunshan German Industrial Park



DSCF3002



DSCF3001



DSCF3003

Other events



Collaboration Agreement with Basque Government



2012_04_27_lehen_jiangsu_152



2012_04_27_lehen_jiangsu_161



2012_04_27_lehen_jiangsu_168



2012_04_27_lehen_jiangsu_183

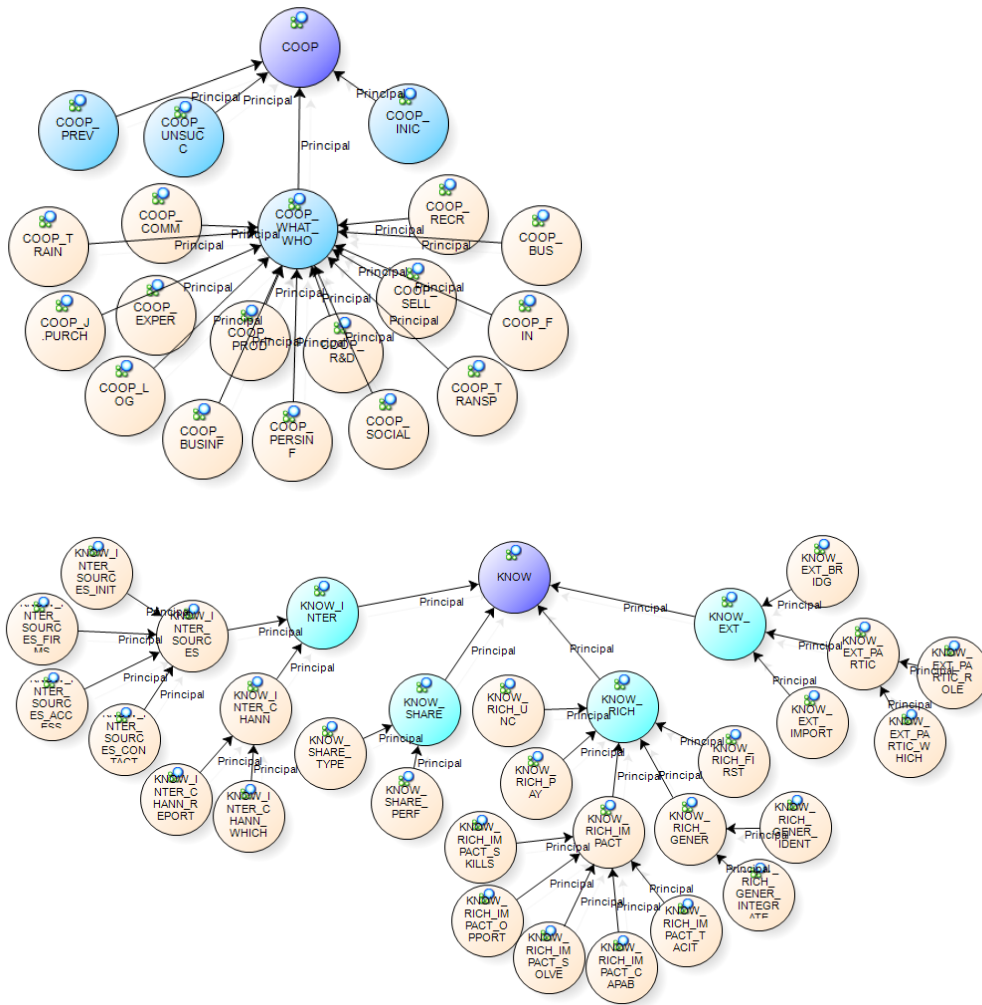
Source; Irekia, 2012

Appendix 9. Categorization and description of nodes

Node structure	Description	Node structure	Description
STR	Structural dimension	COG	Cognitive dimension
STR_TIES	Network ties	COG_COHE	Cohesion
STR_TIES_STRENG	Strength of ties	COG_COHE_CONFL	Problem resolution
STR_TIES_STRENG_FREQ	Frequency of interaction	COG_COHE_CONFL_TRIG	Triggers
STR_TIES_STRENG_INTIM	Intimacy level	COG_COHE_CONFL_SOLVE	How solved
STR_TIES_INTER	Social interaction	COG_COHE_HELP	Mutual help
STR_TIES_INTER_GM	Interaction GMs	COG_COHE_SOLID	Solidarity disparities
STR_TIES_INTER_WR	Interaction workers	COG_COHE_SOLID_STAND	Standards
STR_TIES_INTER_ISO	Most isolated firms	COG_COHE_SOLID_WORK	Equality workers
STR_TIES_LINKS	Links direction	COG_CONG	Congruence level
STR_CONFIG	Network configuration	COG_CONG_GOAL	Goals
STR_CONFIG_DIV	Diversity and heterogeneity	COG_CONG_GOAL_DEFIN	Definition of common goals
STR_CONFIG_DIV_3	Differentiating features	COG_CONG_GOAL_MARK	Identification of goals
STR_CONFIG_DIV_UNITE	Unite or divide	COG_CONG_VISION	Vision
STR_CONFIG_DIV_INFOPPOR	Information and opportunities	COG_CONG_VISION_IDENT	Identification with vision
STR_CONFIG_DEN	Density	COG_CONG_PVAL	Principles and values
STR_CONFIG_PROX	Proximity	COG_CONG_PVAL_COOP	Cooperative values
STR_CONFIG_PROX_GEO	Geographical proximity	COG_CONG_PVAL_DIFFER	Differences in values
STR_CONFIG_HIER	Hierarchy and centrality	COG_CONG_CULT	Shared culture
STR_CONFIG_HIER_GOVE	Governance	COG_CONG_CULT_UNDEERS	Understanding of park's shared culture
STR_CONFIG_HIER_POSIT	Position and hierarchy	COG_CONG_CULT_SIGN	Sign or emblem
STR_CONFIG_HIER_EFFECT	Effect on the functioning	COG_CONG_CULT_ADAPT	Adaptation culture
STR_CONFIG_FORM	Formality of relationships	COG_CONG_CULT_TRANSM	Culture transmission
STR_CONFIG_FORM_ASSOC	Associative form	COG_WE	Sense of we-ness
STR_CONFIG_FORM_STAGE	Stage of maturity	COG_WE_EXIST	Existence, perception
STR_CONFIG_SERV	Practices, common services	COG_WE_EXIST_PARENT	HQ perception
STR_CONFIG_SERV_FEE	Service fees	COG_WE_EXIST_WORK	Worker perception
STR_CONFIG_SERV_WHO	Service for whom	COG_WE_EXIST_EXPATS	Existence among sub., expats
STR_CONFIG_LEAD	Leadership	COG_WE_FORM	Formation
STR_STAB	Network stability	COG_WE_FORM_COLOC	Leader subsidiary
STR_STAB_MEMB	Membership	COG_WE_FORM_LEAD	Leader action to form it
STR_STAB_STAB	Stability	COG_WE_BENEFIT	Benefits, advantages
STR_STAB_MOBIL	Mobility	COG_WE_CHALL	Challenges
REL	Relational dimension	KNOW	Knowledge
REL_TRUST	Trust	KNOW_SHARE	Knowledge sharing
REL_TRUST_CLIM	Trusting climate	KNOW_SHARE_PERF	Influence on performance
REL_TRUST_CONFID	Confidence members	KNOW_SHARE_TYPE	Type of knowledge
REL_TRUST_INSTAUTH	Authorities, institutions	KNOW_INTER	Internal information and communication
REL_COMMIT	Commitment	KNOW_INTER_SOUR	Sources of inform.
REL_COMMIT_VALUE	Value of relationships	KNOW_INTER_SOUR_CONTACT	Contact person
REL_COMMIT_VALUE	Value, importance	KNOW_INTER_SOUR_FIRMS	Info. From firms
REL_COMMIT_VALUE_REPUT	Reputation impact	KNOW_INTER_SOUR_INIT	Who has initiative
REL_COMMIT_VALUE_INVEST	Willingness to invest	KNOW_INTER_SOURCES_ACCESS	Access to informants
REL_COMMIT_OPPORT	Opportunistic behaviour	KNOW_INTER_CHANN	Information channels
REL_COMMIT_OPPORT_INCENT	Incentives	KNOW_INTER_CHANN_REPORT	Reporting
REL_COMMIT_OPPORT_SANCTION	Sanctions	KNOW_INTER_CHANN_WHICH	Channels used
REL_COMMIT_RECIP	Reciprocity	KNOW_EXT	External ties
REL_COMMIT_RECIP_EXP	Expectation reciprocity	KNOW_EXT_BRIDG	Bridging SC
REL_COMMIT_RECIP_SCALE	Agreement level	KNOW_EXT_IMPORT	Importance of ties
REL_GUANXI	Guanxi	KNOW_EXT_PARTIC	Participation
REL_GUANXI_DEVandUSE	Development and use	KNOW_RICH	Richness exchange
REL_GUANXI_DEVandUSE_BUS	For business	KNOW_RICH_UNC	Uncertainties
REL_GUANXI_DEVandUSE_GOV	For Government	KNOW_RICH_IMPACT	Impact of information and knowledge
REL_GUANXI_VALUE	Value of guanxi	KNOW_RICH_IMPACT_SOLVE	Solve problems
REL_GUANXI_NETWORK	Difference network	KNOW_RICH_IMPACT_CAPAB	Decision capability
COOP	Cooperation	KNOW_RICH_IMPACT_SKILLS	New skills
COOP_PREV	Previous cooperation	KNOW_RICH_IMPACT_OPPORT	New opportunities
COOP_UNSUCC	Unsuccessful coop.	KNOW_RICH_IMPACT_TACIT	Increase tacit knowledge
COOP_INIC	Coop. initiative	KNOW_RICH_PAY	Ready to pay
COOP_WHAT	Coop. Activities	KNOW_RICH_GENER	General view

Transnationalization through country-of-origin FDI clusters

<i>COOP_FIN</i>	<i>Finance</i>	<i>KNOW_RICH_GENER_IDENT</i>	<i>Identify value</i>
<i>COOP_JPURCH</i>	<i>Joining purchasing</i>	<i>KNOW_RICH_GENER_INTEGRATE</i>	<i>Integrate</i>
<i>COOP_R&D</i>	<i>R&D</i>	<i>COOP_SOCIAL</i>	<i>Social events</i>
<i>COOP_SELL</i>	<i>Selling</i>	<i>COOP_BUS</i>	<i>Business events</i>
<i>COOP_LOG</i>	<i>Logistics</i>	<i>COOP_COMM</i>	<i>Community events</i>
<i>COOP_TRANSP</i>	<i>Transport employees</i>	<i>COOP_EXPER</i>	<i>Share experiences</i>
<i>COOP_RECR</i>	<i>Recruitment, selection</i>	<i>COOP_PROD</i>	<i>Production</i>
<i>COOP_TRAIN</i>	<i>Training programmes</i>	<i>COOP_BUSINF</i>	<i>Business information</i>
		<i>COOP_PERSINF</i>	<i>Personal information</i>



Appendix 11. Summary contingency tables (V Cramer/ Sig.): Challenges

	<i>General</i>	<i>Co-location</i>	<i>Main entry reason</i>	<i>Internationalization (WCD)</i>	<i>Decision power</i>	<i>Subsidiary experience Kunshan</i>	<i>Manager experience China</i>
GENERAL	External	--	0,432 *	--	--	--	--
	Management	--	--	--	--	0,467 **	--
	HR	--	--	0,568**	--	0,547***	0,338 *
	Regulation and government	--	--	--	--	--	--
	Competition	--	0,518 **	0,437*	--	0,467 **	0,540 ***
	Market	--	--	--	--	--	--
EXTERNAL	Competition	--	--	--	--	--	--
	Econ. China	0,788 ***	--	--	--	--	--
	Gov. policies	--	--	--	--	--	--
	Global recov.	--	--	--	--	0,683**	--
	Rising cost	--	--	--	--	0,752***	0,605 *
	RMB appr.	--	0,559 *	--	--	0,699 **	--
	Legal env.	--	--	--	--	--	--
	Protectionism	--	--	--	--	--	--
	QCL_EXTCH	--	0,432 *	--	--	--	--
MANAGEMENT	Corp. Gov.	--	--	--	--	0,602 **	--
	Distribution	0,506 *	--	--	--	0,521 *	--
	Finance	--	--	--	--	0,582 *	--
	IP	--	--	--	--	--	--
	HQsupport	--	--	--	--	0,585 *	--
HUMAN RESOURCES	Talent	--	--	0,418*	0,450 *	0,586**	--
	HRCost	--	--	--	--	--	--
	Commitment	--	--	0,621**	0,580 *	0,643**	--
	Expectations	--	--	--	--	0,564*	0,551 *
	Retaining	--	--	--	--	--	--
	Unethical	--	--	--	--	--	--
REGULATIONS AND GOVERNMENT	Macroecon	--	--	--	--	--	--
	Unclear	--	--	--	--	--	0,604 *
	Corruption	--	--	--	0,617 *	--	--
	Disparity	--	--	--	--	--	--
	Involvement	--	--	--	--	--	--
	Strict reg.	--	--	--	--	--	--
	Licenses	--	--	--	--	--	--
	Environment	--	--	--	--	--	--
COMPETITION	China comp.	--	--	--	--	0,597*	--
	Unfair comp.	--	0,529 *	--	--	--	--
	SOE	--	--	--	0,593 *	--	--
	Enforcement	--	--	--	--	--	--

	QCL_COMPC H	--	0,518 **	0,437*	--	0,467 **	0,540 ***
MARKET	Behaviour	--	--	--	0,578 *	--	0,579 *
	Results	--	--	--	--	--	--
	Plan less	--	--	--	--	--	--
	Relationships	--	--	--	--	--	--

Source: own elaboration

Appendix 12. Summary contingency tables (V Cramer/ Sig.*): Cluster effect

		Co- location	Main entry reason			Co- location	Main entry reason
GENERAL CLUSTER EFFECT	Local (LMK)	--	--	NETWORKING AND SOCIAL INTERACTION	Tacit	0,727**	--
	Industry (ISK)	0,508 **	--		Collaboration	0,801***	--
	Legitimacy (LEG)	n.s	n.s		SocialAct	--	--
	Networking (NET)	0,558***	--		Prof.Act	0,571**	--
	Market (MARK)	0,450**	0,625***		Public	0,571**	--
	Costs (COST)	--	--		Personal	0,681**	0,533*
LOCAL MARKET KNOWLEDGE AND RESOURCES	Establ	--	--		Professional	0,681**	--
	Adaptation	--	--		LOO	0,631**	--
	Legal	--	0,595 **		TrustInformal	0,664**	--
	Culture	0,637 **	--		TrustOthers	0,688**	--
	WorkerCult.	0,686 **	--		Customers	0,688**	--
	TimeCountry	--	--		Competitors	0,679**	--
INDUSTRY SPECIFIC KNOWLEDGE AND RESOURCES	Industry	0,686 **	--	MARKET CONDITIONS	Survival	--	--
	Supplier	--	--		Speed	--	0,524*
	Specialized	--	--		Partners	0,662**	--
	WorkerSpec.	0,597 *	--		MarketKnowledge	0,696**	0,574**
	Technology	0,78 ***	--		Sales	--	--
	TechRes.	0,657 **	--		NewOpport.	0,696**	--
	Protection	--	--	COSTS	Logistics	--	--
	Innovation	0,827 ***	--		Transaction	--	--
	Efficiency	0,566 *	--		Inputs	--	--
Inputs	--	--	Workers		0,564*	0,618**	
			Infrastructure		0,693**	--	
			Financial		--	--	
LEGITIMACY AND REPUTATION	Normative	--	n.s	Physical	--	--	
	Pragmatic	n.s	n.s				
	Cognitive	n.s	n.s				
	Local leg.	n.s	n.s				
	Spillovers	0,509 *	n.s				
	Visibility	0,688 **	n.s				

Source: own elaboration

Appendix 13. Correspondence analysis- Challenges

The models show that dimension 1 explains a higher percentage of information than dimension 2. Two dimensions were presented by the models, so that the first illustrated 40,4% of the variance and an autovalue of 2,424 with a Cronbach coefficient of 0.705, while the second dimension illustrated 20,3% of the variance and an autovalue of 1,217 with a Cronbach coefficient of 0,214. Hence, for the overall models, the total variance illustrated was 60,7%, the mean autovalue was 1,821 and the mean coefficient of the Cronbach a was 0,541, pointing out a positive reliability.

Summary of the model

Dimension	Cronbach Alpha	Explained variance		
		Total (AutoValues)	Inertia	% of variance
1	,705	2,424	,404	40,402
2	,214	1,217	,203	20,285
Total		3,641	,607	
Mean	,541	1,821	,303	30,344

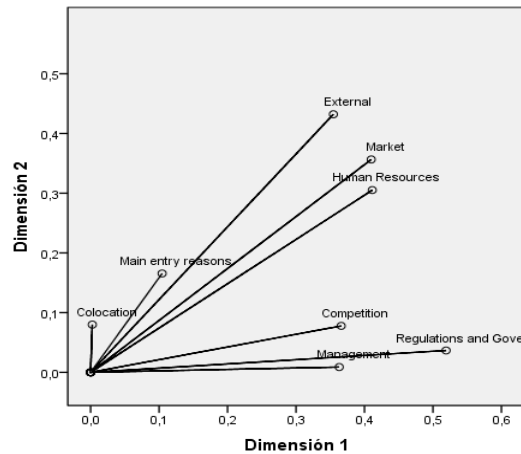
The contribution of the objects shows how each company/ case is contributing to the inertia of each of the dimensions.

Contribution of the objects

Company code	N. cases	Contribution		
		Of dimension to inertia of point		
		1	2	Total
A2	1	,191	,095	,286
A3	2	,001	,075	,077
A4	3	,003	,505	,508
A5	4	,966	,003	,969
A6	5	,966	,003	,969
A7	6	,140	,428	,567
A8	7	,966	,003	,969
A9	8	,002	,072	,075
A10	9	,098	,586	,683
A11	10	,197	,329	,526
A12	11	,136	,460	,596
A13	12	,001	,124	,125
B1	13	,001	,797	,798
B2	14	,966	,003	,969
B3	15	,966	,003	,969
B4	16	,973	,001	,974
C1	17	,193	,018	,210
C2	18	,685	,148	,833
C3	19	,085	,032	,116
D1	20	,109	,047	,155
D2	21	,661	,142	,803
D3	22	,369	,114	,483
D4	23	,966	,003	,969
D5	24	,966	,003	,969

Discrimination measures (Challenges-Colocation-Main Entry Reason)

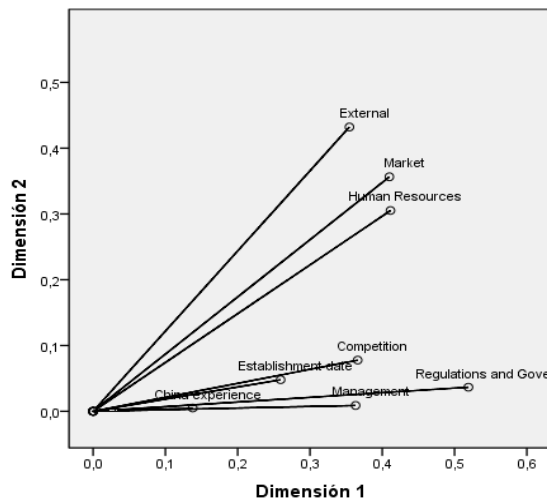
	Dimension		Average
	1	2	
QCL_EXTCH	,355	,432	,393
QCL_MANCH	,363	,009	,186
QCL_HRCH	,411	,305	,358
QCL_REGCH	,519	,037	,278
QCL_COMPCH	,366	,078	,222
QCL_MARCH	,410	,356	,383
COLOCATED	,002	,080	,041
MainEntryReason	,104	,166	,135
Total activo	2,424	1,217	1,821
% de la varianza	40,40 2	20,28 5	30,34 4



Normalización principal por variable.

Discrimination measures (Challenges - Sub. Experience Kunshan- GM Experience China)

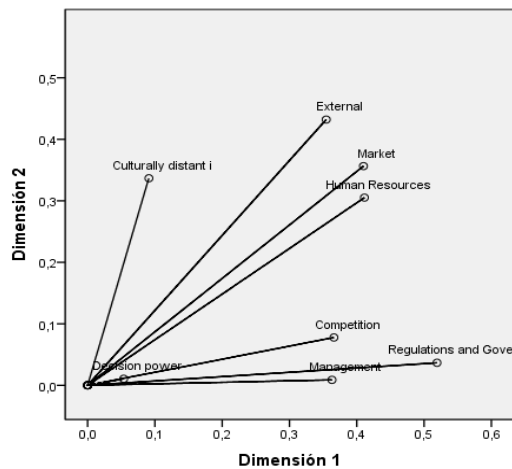
	Dimension		Average
	1	2	
QCL_EXTCH	,355	,432	,393
QCL_MANCH	,363	,009	,186
QCL_HRCH	,411	,305	,358
QCL_REGCH	,519	,037	,278
QCL_COMPCH	,366	,078	,222
QCL_MARCH	,410	,356	,383
EstabDate	,259	,048	,154
M_ExpTotalChina	,138	,005	,071
Total activo	2,424	1,217	1,821
% de la varianza	40,40 2	20,28 5	30,34 4



Normalización principal por variable.

Discrimination measures (Challenges -Culturally distant internationalization- Subsidiary decision power)

	Dimension		Average
	1	2	
QCL_EXTCH	,355	,432	,393
QCL_MANCH	,363	,009	,186
QCL_HRCH	,411	,305	,358
QCL_REGCH	,519	,037	,278
QCL_COMPCH	,366	,078	,222
QCL_MARCH	,410	,356	,383
ROLE_DECISIONPOWER	,054	,011	,032
HQ_WCD_R	,091	,337	,214
Total activo	2,424	1,217	1,821
% de la varianza	,355 2	,432 5	,393 4



Normalización principal por variable.

Appendix 14. Correspondence analysis- Cluster effect

The models show that dimension 1 explains a higher percentage of information than dimension 2. Two dimensions were presented by the model, so that the first illustrated 38,1% of the variance and an autovalue of 2,286 with a Cronbach coefficient of 0.675, while the second dimension illustrated 25,3% of the variance and an autovalue of 1,515 with a Cronbach coefficient of 0,408. Hence, for the overall model, the total variance illustrated was 63,4%, the mean autovalue was 1,901 and the mean coefficient of the Cronbach a was 0,569, pointing out a positive reliability.

Summary of the model

Dimension	Cronbach Alpha	Explained variance		
		Total (AutoValues)	Inertia	% of variance
1	,675	2,286	,381	38,100
2	,408	1,515	,253	25,257
Total		3,801	,634	
Mean	,569	1,901	,317	31,679

The contribution of the objects shows how each company/ case is contributing to the inertia of each of the dimensions.

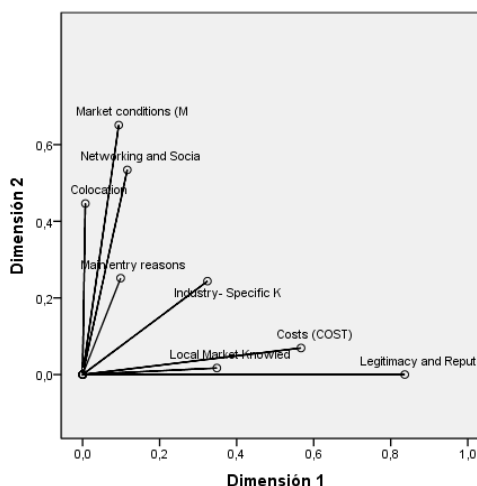
Contribution of the objects

Company code	N. cases	Contribution		
		Of dimension to inertia of point		
		1	2	Total
A2	1	,374	,132	,506
A3	2	,531	,201	,732
A4	3	,531	,201	,732
A5	4	,437	,342	,779
A6	5	,020	,296	,316
A7	6	,374	,132	,506
A8	7	,359	,525	,885
A9	8	,032	,388	,420
A10	9	,410	,001	,411
A11	10	,410	,001	,411
A12	11	,692	,106	,798
A13	12	,410	,001	,411

Company code	N. cases	Contribution		
		Of dimension to inertia of point		
		1	2	Total
B1	13	,190	,418	,608
B2	14	,692	,106	,798
B3	15	,008	,554	,562
B4	16	,805	,004	,810
C1	17	,125	,002	,127
C2	18	,359	,525	,885
C3	19	,531	,201	,732
D1	20	,561	,330	,890
D2	21	,150	,318	,468
D3	22	,248	,143	,392
D4	23	,101	,683	,784
D5	24	,561	,330	,890

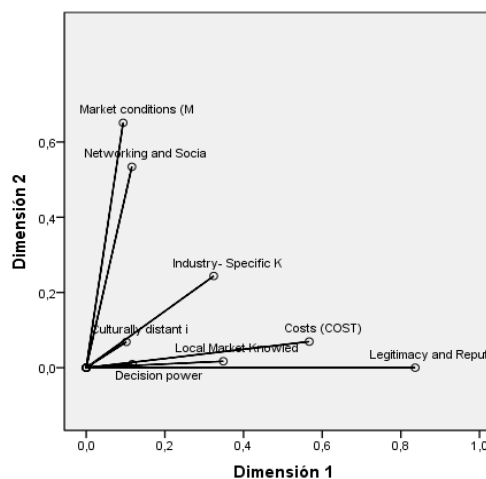
Discrimination measures (Cluster effect-Colocation-Main Entry Reason)

	Dimension		Average
	1	2	
QCL_A2LMK24	,349	,017	,183
QCL_A2ISK24	,324	,244	,284
QCL_A2LEG24	,836	,000	,418
QCL_A2NET24	,116	,534	,325
QCL_A2MARK24	,094	,651	,372
QCL_A2COSTS24	,567	,069	,318
COLOCATED	,007	,446	,227
MainEntryReason	,099	,252	,175
Total activo	2,286	1,515	1,901
% de la varianza	38,100	25,257	31,679



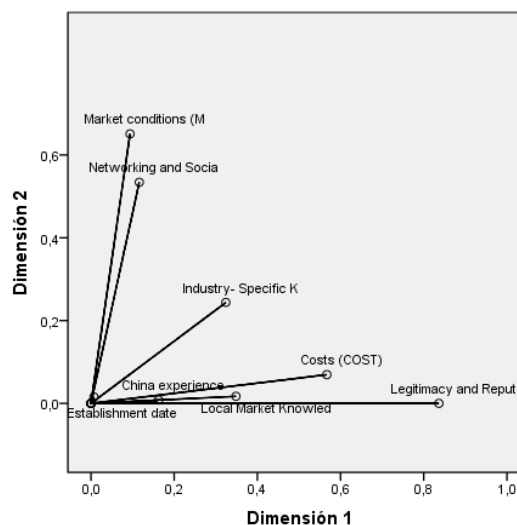
Discrimination measures (Cluster effect -Culturally distant internationalization-Subsidiary decision power)

	Dimension		Average
	1	2	
QCL_A2LMK24	,349	,017	,183
QCL_A2ISK24	,324	,244	,284
QCL_A2LEG24	,836	,000	,418
QCL_A2NET24	,116	,534	,325
QCL_A2MARK24	,094	,651	,372
QCL_A2COSTS24	,567	,069	,318
HQ_WCD_R	,102	,068	,085
ROLE_DECISIONPOWER	,117	,010	,063
Total activo	2,286	1,515	1,901
% de la varianza	38,100	25,257	31,679



Discrimination measures (Cluster effect - Sub. Experience Kunshan- GM Experience China)

	Dimension		Average
	1	2	
QCL_A2LMK24	,349	,017	,183
QCL_A2ISK24	,324	,244	,284
QCL_A2LEG24	,836	,000	,418
QCL_A2NET24	,116	,534	,325
QCL_A2MARK24	,094	,651	,372
QCL_A2COSTS24	,567	,069	,318
EstabDate	,007	,016	,011
M_ExpTotalChina	,163	,008	,085
Total activo	2,286	1,515	1,901
% de la varianza	38,100	25,257	31,679



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RESUMEN EJECUTIVO

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Transnacionalización a través de clústeres¹¹ de filiales del mismo país de origen: retos y externalidades en China

La internacionalización hoy en día no es una opción, sino una realidad. La evolución, complejidad y globalización de los mercados impulsan a las empresas a incorporar nuevas estrategias en aras de aprovechar las oportunidades originadas por la apertura de nuevos mercados. Este nuevo entorno global repercute claramente en las organizaciones, cuyas estructuras tienen que afrontar nuevos retos sociales, culturales, competitivos e institucionales. En un entorno de estas características la internacionalización en colaboración aparece como una oportunidad y/o necesidad apremiante para múltiples empresas.

Las empresas españolas llevan tiempo inmersas en este proceso de globalización que desde 2007 se ve dominado por la peor crisis financiera y económica de las últimas décadas. La caída de la demanda y la dificultad de acceso al crédito han provocado que las ventas nacionales y europeas hayan experimentado una evolución negativa, obligando así a las empresas a abordar nuevos mercados y nuevos sectores, incluso nuevos modelos de negocio. Sin embargo, la falta de experiencia internacional les plantea la reflexión de afrontar el reto de la internacionalización como una oportunidad para asegurar su supervivencia.

Desde este enfoque, hay dos cuestiones clave: cómo lo hacemos, y dónde vamos. La localización es algo que requiere de un análisis profundo, sobre todo cuando hablamos de destinos distantes y lejanos. El mejor ejemplo para analizar este fenómeno lo encontramos en China, polo de atracción de

¹¹ Según la Fundación BBVA, el sustantivo *clúster*, con tilde y plural *clústeres*, es la adaptación del anglicismo *cluster*, ya recogido con la grafía hispanizada en el *Diccionario del español actual*, de Seco, Andrés y Ramos. <http://www.fundeu.es/recomendacion/cluster/>

inversiones extranjeras donde la cultura empresarial y la distancia institucional distan de haber sido adoptadas y superas por las empresas españolas. Es por ello que muchas de las organizaciones recurren a modos de entrada a través de empresas conjuntas (joint venture) o adquisiciones, que implican dificultades de control, integración o culturales. Otra opción es el establecimiento de una filial propia (greenfield) que exige recursos y se enfrenta a hándicaps de ser el foráneo (LOF, liability of outsidership) o no estar integrado y conectado en redes (LOO, liability of outsiderhip). Una forma de abordar esto es a través de transnacionalizarse a través de redes formadas por empresas del mismo país de origen.

El objetivo de esta investigación es por tanto, **analizar el rol que los clústeres de compatriotas (o de filiales del mismo país de origen- clústeres COO-) adoptan en el proceso de transnacionalización de sus miembros.**

Adoptamos una perspectiva de los clústeres COO como un modo de localización en mercados distantes (como es el caso de China) que es novedoso y ha sido poco analizado en la literatura. Para ello, el trabajo empírico se enfoca en dar respuesta a las siguientes preguntas de investigación:

1. ¿A qué retos se enfrentan las filiales como consecuencia del entorno específico y prácticas de negocio propias de China? ¿Difieren esos retos entre las filiales?
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Esta pregunta se enfoca desde un punto de vista *macro* en el que se analiza el entorno general donde estas filiales operan. Esta parte de la investigación se centra en dar respuesta a cuestiones relacionadas con los retos, contingencias y dificultades (*liabilities*) que las empresas extranjeras encuentran en China.

Esta cuestión se enmarca en la interacción literatura sobre internacionalización (IB) y economía geográfica (EG), que analiza los territorios, sus modelos organizativos y participantes. En este sentido podemos pensar que la aglomeración de la inversión directa extranjera- IDE (a través de parques

industrial de empresas del mismo país de origen) puede actuar como un mecanismo que reduce esos retos de establecerse y operar en China. Por tanto planteamos una segunda pregunta de investigación:

2. ¿Qué externalidades proporcionan las aglomeraciones de inversión directa extranjera (IDE) en forma de clústeres de empresas del mismo país de origen? ¿Difieren esas externalidades entre las filiales?

Esta pregunta de investigación arrojará luz en el entendimiento de las razones por las cuales las empresas se localizan en este tipo de clústeres, y las ventajas que obtienen de este tipo de redes territoriales. El objetivo es analizar el efecto real que estos COO clústeres proporcionan. Para ello analizamos las percepciones que los gerentes y directivos de las filiales tienen sobre su modo de localización y el valor positivo que dicha localización (dentro o fuera de un COO clúster) les aporta (en términos de acceso a mercados, recursos y otros).

Los COO clústeres tienen un efecto en las empresas (diferencia entre las externalidades negativas y positivas del clúster) pero se desconocen las condiciones por las cuales este efecto neto es positivo. Esto se relaciona con los activos y recursos estratégicos que emergen de la relación e interacción entre los actores del clúster, esto es, su capital social. Por tanto, también nos planteamos la siguiente pregunta de investigación:

3. ¿Qué rol juegan las comunidades de práctica (CoP) territoriales de expatriados en el COO clúster? ¿Cómo desarrollan y construyen el capital social de la red de filiales estas comunidades?

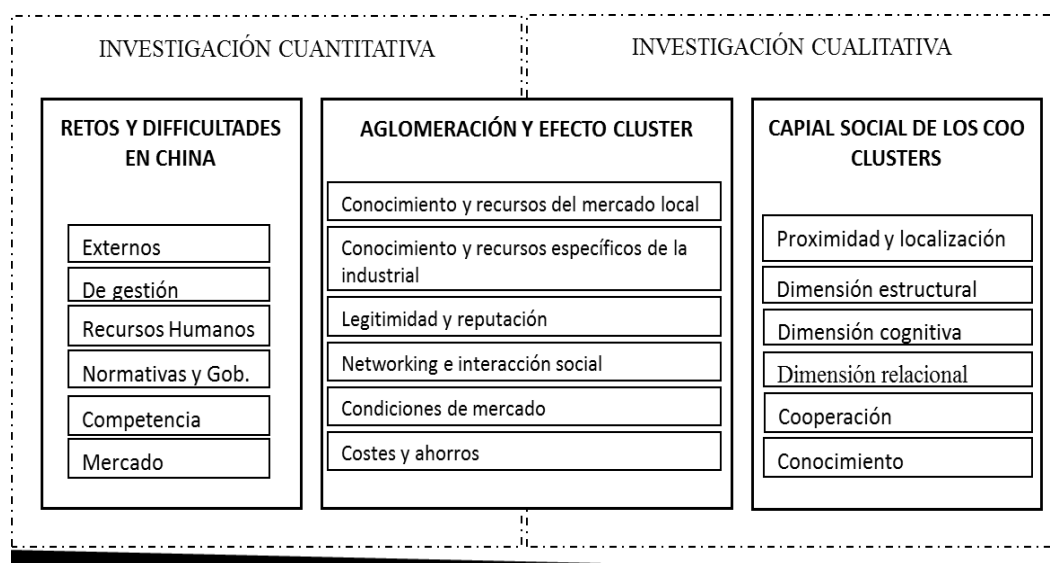
Dada la limitada literatura en este ámbito, el análisis de esta cuestión se plantea desde un estudio cualitativo en profundidad que permita conocer cómo los gerentes de las filiales desarrollan y explotan este capital social internacional. La pregunta de investigación pretende investigar cómo se construye, utiliza y distribuye entre los miembros ese capital social internacional de expatriados de filiales localizadas en clústeres de compatriotas. Asimismo, se analiza el rol

que esa configuración del capital social de este tipo de redes ayuda a los miembros en su proceso de internacionalización.

Para ellos seleccionamos un caso de estudio que nos permita entender si en este entorno de un clúster de filiales del mismo país de origen existe una interacción entre los miembros de esa red y si es así, cómo se configura el capital social del clúster. Por tanto el objeto de análisis es el individuo (expatriados gerentes de filiales) y sus percepciones. Desde este punto de vista, asumimos que el clústering geográfico es necesario pero no suficiente para la existencia de externalidades.

Como se indica en la siguiente figura, éstas tres cuestiones conforman los pilares de esta tesis doctoral.

Figura 1. Diagrama de investigación



Fuente: elaboración propia

Esta investigación es un estudio que combina metodologías cualitativas y cuantitativas y que se compone de 7 capítulos. Los tres primeros capítulos hacen referencia a la literatura sobre transnacionalización y gestión internacional, redes inter-organizacionales territoriales y las comunidades de aprendizaje y capital social. Por otro lado, contextualizamos esta investigación en un cuarto capítulo sobre China. El quinto y sexto capítulos tratan de describir la metodología utilizada y el análisis de resultados, para así concluir

con un último capítulo donde indicamos las conclusiones, limitaciones, y futuras líneas de investigación.

La siguiente tabla resume la metodología utilizada para resolver esas tres preguntas de investigación:

Tabla 1. Preguntas de investigación y metodología

Preguntas de investigación	Metodología	Estrategia	Herramientas de recogida de datos
1. ¿A qué retos se enfrentan las filiales como consecuencia del entorno específico y prácticas de negocio propias de China? ¿Difieren esos retos entre filiales?	Cuantitativa	Encuesta	Cuestionario 2 (auto-administrado, online)
2. ¿Qué externalidades proporcionan las aglomeraciones de inversión directa extranjera en forma de clústeres de empresas del mismo país de origen? ¿Difieren esas externalidades entre filiales?	Cuantitativa Cualitativa	Encuesta	Cuestionario 3 (administrado por entrevistado, estructurado)
3. ¿Qué rol juegan las comunidades de práctica territoriales de expatriados en el COO clúster? ¿Cómo desarrollan y construyen el capital social de la red de filiales estas comunidades?	Cualitativa	Caso de estudio	Entrevistas (personales, presenciales)

Fuente: elaboración propia

La muestra utilizada para el análisis de las dos primeras preguntas está formada por 24 filiales: 12 filiales en Mondragón Kunshan Industrial Park- MKIP (A1 excluido- empresa de servicios generales), 4 filiales en Kunshan German Industrial Park- KGIP (B5 excluido- Startup Services), 3 filiales a entrar en MKIP en 2013 y 5 filiales vascas aisladas (pero localizadas en Kunshan). Para la pregunta de investigación relacionada con el capital social, se utilizó el estudio de caso del parque industrial de Mondragón (MKIP).

La siguiente tabla presenta la elección de la unidad de análisis para cada tema analizado:

Tabla 2. Unidad de análisis

Tema de investigación	Metodología	Unidad de análisis	Informante
Retos en China	Cuantitativa	Unidad filial - 12 filiales en MKIP (A1 excluida- empresa de servicios generales) - 4 filiales en KGIP (B5 excluida- Startup Services) - 3 filiales a entrar en MKIP en 2013	Director gerente de la filial
Aglomeración y efecto clúster	Cuantitativa Cualitativa	- 5 filiales vascas aisladas (pero localizadas en Kunshan) Total: 24 filiales	
Capital Social	Cualitativa	Caso único incrustado: - Caso: MKIP (1 parque industrial) - Unidades: filiales miembro (13 empresas)	Director gerente de la filial

Fuente: elaboración propia

1. Retos en China

Se analizó la percepción que las empresas tienen respecto a los siguientes desafíos:

- 1 - Desafíos externos
- 2 - Retos de gestión
- 3 - Retos de recursos humanos
- 4 - Regulaciones y desafíos relacionados con el gobierno
- 5 – Retos competitivos
- 6 - Desafíos de mercado

Nuestras conclusiones demuestran que, sin tener en cuenta las diferencias entre filiales, las empresas están más preocupadas por los problemas externos (por ejemplo, la economía de China), los recursos humanos y el mercado, pero no tanto por las regulaciones, la competencia o ámbitos de gestión. El mayor desafío que los gerentes señalan es el aumento del coste de la mano de obra, mientras que los problemas de distribución son los menos preocupantes. Por lo tanto, podríamos afirmar que entre las principales preocupaciones, el hecho de que la tasa de crecimiento de China ha caído de la histórica tasa de dos dígitos a cerca de 6-7% o que los salarios están aumentando un 15% -20% por año tienen influencia en la percepción de los directivos.

Estos resultados complementan trabajos previos que apunta a que las mayores dificultades encontradas por las empresas españolas en China se relacionan con el desconocimiento de la cultura, con los recursos humanos, con el ordenamiento jurídico o con las autoridades locales. Aunque en términos generales, las regulaciones y los retos relacionados con el gobierno no eran tan altos en nuestra muestra, es cierto que las dificultades relacionadas con los recursos humanos son percibidas por los gerentes como desafíos importantes.

Dentro de esa área de recursos humanos, hay estudios que apuntan a que la contratación y retención de recursos humanos locales son los aspectos más complicados a abordar. Este hallazgo va en línea con nuestra investigación, que demuestra que encontrar y contratar talento, retener a los empleados y generar compromiso y lealtad de los trabajadores en China son retos importantes para los gerentes que operan allí. Sin embargo, nuestros datos muestran que el aumento de los costes laborales es la mayor preocupación de todas. Este último factor fue también uno de los retos relevantes en investigaciones previas sobre empresas europeas en China. Nuestros resultados van en línea con trabajos que destacan que, las empresas españolas, en comparación con otras empresas europeas, han tardado en acceder a este mercado y no han aprovechado plenamente las oportunidades que ofrece China.

En cualquier caso, en comparación con esos estudios previos, nuestra investigación proporciona una comprensión más profunda de los retos, y evidencia que dichos retos difieren dependiendo de varios factores. Esta heterogeneidad se muestra principalmente en términos de los motivos estratégicos de las empresas para ir a China, su nivel de internacionalización, o experiencia tanto de las empresas como de los gerentes en ese entorno local.

Si enfocamos nuestra reflexión en las distinciones entre los aspectos analizados (razones de entrada, localización, autonomía subsidiaria o experiencia) podemos encontrar las siguientes diferencias. Por un lado, las empresas que perciben mayores niveles de retos son filiales co-localizadas que van a China por varias razones, que tienen un nivel bajo de distancia cultural en su

internacionalización, mayor poder de decisión de su filial en China y con mayor experiencia local tanto de la subsidiaria como del director gerente. Esto nos hace pensar que los clústeres de empresas el mismo país de origen pueden ser vistos como una plataforma para las empresas menos internacionalizadas, que no sólo van a China por razones de coste, sino también para expandir su mercado. Frente a lo que cabía esperar, una mayor experiencia en China no significa que los gerentes perciban menores desafíos.

A primera vista, las empresas co-localizadas se enfrentan a mayores retos. Se enmarcan en un área de incertidumbre, mientras que las aisladas, que tienden a establecerse en China por motivos mixtos o de recursos y coste, también se enfrentan a retos, pero en menor medida. Esto nos plantea una cuestión. ¿Son los clusters de compatriotas la razón o el efecto de dichos retos? Se co-localizan las empresas porque tienen miedo e incertidumbre o perciben mayores retos por el hecho de estar en dichos clusters?. En cualquier caso, el análisis sobre la relación entre la colocación y los retos (sin considerar otras variables) no muestra evidencias tan claras. Por otro lado, bajo este análisis adicional, las empresas con razones de entrada mixtas no sólo se enfrentan a retos externos y de recursos humanos, sino también a retos competitivos.

Contrario a otras investigaciones sobre empresas manufactureras españolas que invierten en China, las empresas de nuestra muestra que entraron buscando recursos no estaban ubicadas en las aglomeraciones de tipo COO. Esto nos hace pensar que estos clusters quizás no aporten beneficios en costes, podrían tener vinculaciones comerciales entre ellas o ser vistas como una plataforma que acoge empresas con objetivos de mercado en China.

Si tenemos en cuenta la internacionalización de las empresas, podemos observar que un bajo nivel de internacionalización tiene una mayor influencia sobre las empresas con motivos de entrada mixtos o de búsqueda de recursos, que tienden a estar aisladas; y que se enfrentan a mayores retos que las empresas de un nivel de internacionalización medio. Esto confirma nuestras

presunciones sobre cómo un nivel bajo de una internacionalización culturalmente diversa está asociado a mayores retos empresariales.

Por otro lado, una alta experiencia en el entorno local (de la filial y los gerentes) tiene más influencia en las empresas con las razones de entrada mixtas, mientras que la menor experiencia está de alguna manera más asociada a empresas que buscan mercado. Además, contrario a lo que cabría esperar, las empresas aisladas no optaron por este tipo de localización ni por tener más experiencia en el país, ni por tener mayor nivel de internacionalización culturalmente distante. Es complicado predecir si potenciales nuevos inversores optarán por co-localizarse en clústeres o no. Una mayor experiencia en el país destino (de empresas y gerentes) tiene una mayor influencia en empresas con razones de entrada mixtas, mientras que una menor experiencia de empresas que entraron en Kunshan más tarde está asociada a razones de mercado. Por tanto los nuevos inversores podrían optar por localizarse aisladamente cuando buscan recursos y coste, y co-localizarse en este tipo de clusters cuando tienen objetivos de mercado. Sorprendentemente, las empresas y gerentes con mayor experiencia local también se enfrentan a retos (sobre todo externos y de recursos humanos). Por tanto, tener experiencia local no significa que los retos empresariales sean menores.

Estos resultados contribuyen al trabajos que han analizado la IDE española en China y asocian un mayor nivel de experiencia en el país, con modos de entrada que implicaban un mayor compromiso de recursos (es decir, filiales de propiedad total). Nuestros resultados muestran que aunque todas las empresas de nuestra muestra eran filiales de propiedad total, sus diferentes niveles de experiencia en el país destino de la inversión no influyeron en su modo de localización (aislamiento / co-localización), pero ésta experiencia puede haber influido en sus razones estratégicas.

En lo que se refiere al futuro, se espera que las empresas que centren su interés en China incrementen por motivos de desarrollo de mercado local interno, más que por los factores de costes. Según nuestros hallazgos, estas son las empresas

que perciben niveles más bajos de desafíos (especialmente externos y de competencia). Sin embargo, en esa transición hacia una estrategia de búsqueda de mercado en China, las empresas pueden tener razones de entrada mixtas, y pueden enfrentarse a presiones competitivas importantes.

Por otro lado, un mayor nivel de autonomía de la filial se asocia a empresas ubicadas en parques, lo que pudiera indicar que la co-localización podría de algún modo aportar un contexto y un paraguas donde las filiales pueden adquirir un nivel más elevado de autonomía, a pesar que implique mayores retos en mayores áreas funcionales de la empresa.

Por otra parte, también demuestra que las empresas que acceden a través de filiales en propiedad no sólo deciden ubicarse en aglomeraciones étnicas, sino que hay empresas del mismo país de origen, que en el mismo lugar (ciudad), deciden ubicar sus instalaciones fuera de este tipo de agrupaciones. Puede que opten por clusters étnicos, pero no necesariamente.

2. Aglomeración y efecto clúster

Se realizó un análisis de las percepciones a través de la comparación de puntuaciones medias y tablas de contingencia. Los aspectos analizados han sido los siguientes:

- 1 - Conocimiento y recursos del mercado local
- 2 - Conocimientos y recursos específicos de la industria
- 3 - Legitimidad y reputación
- 4 - Networking e interacción social
- 5 - Condiciones de mercado
- 6 - Costes

Esta investigación aporta valor a investigaciones actuales sobre aglomeraciones de empresas del mismo país de origen que proponen futuras investigaciones sobre los factores impulsores y mecanismos que contribuyen a la formación de grupos co-étnicos. En este sentido, la literatura ha proporcionado evidencias

que explican cómo las redes permiten a los miembros colaborar y adquirir, crear y compartir conocimientos. La configuración de la red genera beneficios conjuntos que pueden evolucionar con el tiempo. Los grupos altamente colaborativos podrían proporcionar apoyo mutuo, bienestar psicológico y una mejora en el rendimiento de los miembros. Las redes geográficas y la concentración de la actividad económica generan externalidades o economías de aglomeración que benefician a los miembros, pero también pueden crear deseconomías como la competencia por los factores productivos. La co-localización por tanto genera un efecto neto.

Gran parte de la literatura económica ha estudiado la forma en que las redes empresariales geográficamente limitadas influyen en la estrategia empresarial. Desde una perspectiva de internacionalización, la mayoría de estos estudios han adoptado una visión de país de origen, sin considerar la existencia de esas redes en el nivel del país destino. Este último aspecto es importante cuando las multinacionales de economías desarrolladas entran en un mercado emergente, ya que a menudo deciden co-localizarse junto a otras empresas extranjeras.

Los COO clústeres se ven como un modo de entrada estratégico donde las empresas se localizan cerca de otras empresas compatriotas, especialmente cuando buscan una expansión de mercado. Sin embargo, este tipo de clústeres (COO) no se ha investigado mucho en la literatura. Desde este punto de vista, analizamos quiénes en la aglomeración de COO se benefician de esa red y qué obtienen de esa interacción. Para este análisis, se estudiaron seis constructos relacionados con el mercado local, los conocimientos y recursos de la industria, así como con factores de legitimidad, networking, y condiciones de mercado y costes.

La aglomeración de las multinacionales se ha centrado en el estudio de vínculos industriales o sectoriales, pero esos vínculos también que se basan en las características culturales o étnicas de las empresas y sus gestores. Esta co-localización se puede dar en forma de aglomeración de IDE de empresas del mismo país de origen (COO clústeres), que tiene ventajas y sinergias en

términos de legitimidad en el país destino. Existen implicaciones prácticas que pueden surgir de esta investigación en términos del efecto neto que pueden tener los COO clústeres. En particular, este estudio muestra que los directivos, al tomar una decisión sobre la ubicación de sus operaciones, deben tener en cuenta los beneficios o costes que este tipo de agrupación ofrece (en términos del apoyo social de los expatriados u otras externalidades como el conocimiento específico de la industria).

Esta investigación va en línea con estudios anteriores que indican que las redes facilitan el aprendizaje en contextos distantes. El análisis cualitativo apoya la idea de que las empresas más pequeñas y aquellas con menos experiencia perciben un valor mayor de la red y la co-localización, y que esta proximidad, es especialmente útil para la transmisión de conocimiento tácito y el apoyo mutuo. Ayuda a superar barreras relacionales (LOO), parte de su las externalidades de creación de redes que proporciona.

Los resultados más generales muestran que hay heterogeneidad en la percepción de los gerentes con respecto a los beneficios que obtienen de su modo de locación, especialmente para los factores específicos de la industria, las redes y las cuestiones de mercado. Nuestros hallazgos soportan estudios previos que sugieren que este tipo de clusters aportas beneficios de interacion y creación de redes sociales pero no tanto en condiciones de mercado o conocimiento y recursos específico de la industria (que suelen ir asociados a clusters industriales). La co-localización parece proporcionar una mayor visibilidad, confianza, apoyo profesional y social, conocimientos tácitos, y una mayor capacidad para colaborar y organizar actividades profesionales. Además, también brinda oportunidades para encontrar socios comerciales, pero los beneficios de costes (especialmente costes laborales y de infraestructura) en estos lugares son más bajos.

Las empresas aisladas perciben mayores externalidades de tipo industrial (conocimiento del sector, pronósticos, tendencias tecnológicas, etc.). Además,

el aislamiento puede ayudar a percibir mayores beneficios en cuanto a la adaptación cultural.

Por otro lado, las externalidades en legitimidad no son claras ya que el análisis cuantitativo no muestra asociación entre los clusters étnicos y la adquisición de legitimidad, mientras las entrevistas con gerentes apuntan a que esta relación existe.

Contrario con otros estudios, nuestros hallazgos no muestran evidencias que demuestren el uso de la co-localización en los clústeres del mismo país de origen como una forma de adquirir un conocimiento significativo sobre el contexto local. Existen opiniones divergentes. Algunos gerentes perciben que el hecho de estar co-localizados con otros expatriados ayuda a adquirir conocimiento cultural, de cómo hacer negocios en China, etc. Sin embargo, como apuntan algunos managers, si esa comunidad de expatriados se cierra demasiado, podría no ayudar a la adaptación e integración cultural.

Esta tesis doctoral también complementa trabajos previos sobre el efecto neto de las aglomeraciones por nacionalidad, ya que clasifica este efecto en diferentes y diversas áreas tales como la creación de redes, el conocimiento de la industria o la legitimidad. Además, nuestra investigación sostiene, que el modo de localización o las razones de entrada también pueden influir en estas percepciones.

Por otra parte, es importante apuntar, que las razones de entrada de las empresas también influyen en diversas opiniones sobre cómo su modo de ubicación proporciona beneficios de mercado. En comparación con las empresas que van a China por motivos de mercado, aquellas que entran buscando recursos tienden a percibir mayores beneficios sobre estos factores del mercado. Específicamente, las empresas que buscan expandir su mercado tienen menores beneficios sobre el conocimiento legal, la capacidad de reaccionar a cambios de mercado y competidores, y tienen un mayor coste en mano de obra cualificada. Las empresas que buscan recursos obtienen menos

apoyo personal, pero un mayor conocimiento del mercado y menores costes en mano de obra. Por otro lado, las empresas que entran en China por razones diversas, se benefician más en cuanto a conocimientos legales, apoyo personal, capacidad de reacción o adquisición de conocimientos de mercado. Este es un hallazgo notable que relaciona las razones de entrada con la externalidades.

Existe un número creciente de empresas del sector de la automoción se están ubicando en China. Esto podría generar en el futuro un efecto de agrupamiento superpuesto en el que coexistan tanto vínculos de país de origen como industriales. A medida que los parques adquieran una mayor dimensión, podrían surgir diferentes sub-redes y la capacidad de organizar actividades podría aumentar, pero el clima de confianza podría variar para las diferentes filiales. Como algunos expatriados argumentan, “cuanta más gente en el parque, menos gente conoces”. Sin embargo, la dimensión en China importa. Las empresas superan parte de su distancia organizativa (por ejemplo aquellas que no pertenecen al mismo grupo empresarial, etc.) porque a través del clústering ganar tamaño y reputación en China.

Teniendo en cuenta las actuales preocupaciones de los gerentes sobre el aumento de los costos en China, estos factores podrían ser condicionantes en el modo de localización que las empresas seleccionen en el futuro. Sin embargo, a medida que las empresas aumentan su disposición a vender en el mercado chino, también buscarán áreas con alta conectividad, por lo que varios factores pueden actuar fuerzas centrífugas y centrípetas de localización.

En definitiva, en general podemos decir que la co-localización *per se* no tiene una influencia positiva o negativa sobre las filiales, pero esa influencia depende de factores como los motivos estratégicos por los que las empresas entran en China y que estos factores demuestran que existe una heterogeneidad en cuanto a los beneficios del clúster que los directivos perciben.

3. Desarrollo de capital social en los COO clústeres

Dentro de esta área, analizamos:

1. El escenario: actores, rol de la filial, ubicación y razones de entrada, proximidad
2. Dimensiones del capital social: estructural, cognitiva, relacional
3. El resultado del capital social: cooperación y conocimiento

La literatura sobre gestión internacional ha evidenciado que las redes de empresas son importantes para el proceso de internacionalización de las empresas. Los estudios sobre expatriados han demostrado que los conglomerados y aglomeraciones de IED podrían tener un efecto positivo en los directivos en cuanto a la manera de afrontar retos y dificultades. Nuestra investigación se basa en estudios previos sobre aglomeraciones nacionales que proponen como futuras investigaciones el análisis de cómo se configuran las redes sociales de los expatriados en mercados extranjeros y la manera en la que estas relaciones influyen las estrategias empresariales.

La razón detrás de esto es que la estrategia de COO clústering mitiga el riesgo de obtener desventajas competitivas causadas por la no pertenencia a redes (*liability of outsidership*, LOO) en mercados distantes. La red de relaciones que poseen los expatriados se configura como un recurso estratégico en su proceso de internacionalización: el capital social internacional.

Como hemos sostenido a lo largo de esta investigación, los expatriados de empresas extranjeras del mismo país de origen han sido considerados como agentes esenciales en este proceso. Sin embargo, se necesitan más investigaciones para comprender los mecanismos a través de los cuales las comunidades de prácticas formadas por expatriados construyen y difunden ese capital social internacional, ya que la diversidad de actividades y estrategias pueden generar una participación heterogénea en esa co-localización. Además, debido a la naturaleza de los expatriados, el capital social será gestionado y distribuido a través de diversos mecanismos. Esto último es un aspecto

fundamental en los mercados distantes, ya que el éxito de la IED va más allá del modo de entrada o de control y depende de la correcta gestión de dicha red de relaciones.

En este sentido, exploramos la construcción dinámica del capital social internacional a través de las comunidades de prácticas. Este es un novedoso enfoque de investigación, ya que trata de relacionar las desventajas de la internacionalización de las empresas que tienen menos recursos con la adecuada gestión de sus redes. Para analizar esto, se ha adoptado un enfoque metodológico cualitativo a través de un estudio de caso inductivo de expatriados de 13 empresas españolas ubicadas en China. A diferencia de otras investigaciones en las que se hace hincapié en el análisis del capital social desde una perspectiva del país de origen, nuestra investigación nos permite comprender no sólo la influencia que tiene el capital social sino también cómo se crea y explota en este mercado. Este marco constituye una contribución importante al conocimiento sobre el rol del capital social en incrementar la competitividad de las empresas a nivel internacional.

De acuerdo con Porter (2000), las empresas extranjeras pequeñas incrementan su competitividad cuando operan juntas, ya que pueden beneficiarse de "acciones conjuntas" (ventajas activas), "economías externas" (ventajas pasivas) y una eficiente y efectiva coordinación de redes que considera aspectos locales. Para el parque industrial de Mondragón en Kunshan, el COO clúster constituye una fórmula factible para que las filiales mantengan su tamaño y autonomía (flexibilidad) al mismo tiempo que participan en actividades conjuntas y crean una estructura que les permite explotar las ventajas de ser un conglomerado de empresas (eficiencia).

Como es de esperar, encontramos que la localización común el *place* proporcionan las condiciones necesarias para que la interacción entre las empresas tenga lugar y así crear la confianza que se necesita para adquirir y compartir conocimientos (sobre proveedores, regulaciones, contratación, etc.) y experiencias (know-how), aumentar el poder de negociación (y *lobby*),

construir una imagen y marca, estandarizar políticas o reducir costos de transacción, de infraestructura y de servicios generales. Así, la proximidad geográfica actúa como impulsora de la proximidad social y cognitiva, y al mismo tiempo reduce la distancia institucional.

Además, también hemos notado que las ventajas de la aglomeración son creadas por los expatriados adoptando la forma de una comunidad de práctica que desarrolla un capital social, pero este capital social se utiliza de diferentes maneras. No es la co-localización geográfica sino el capital social dinámicamente construido por estos directivos lo que contribuye al bienestar psicológico y la confianza entre los expatriados, además de apoyar a las empresas a ganar legitimidad en mercados emergentes.

En otras palabras, encontramos que las dimensiones estructural, relacional y cognitiva del capital social afectan la construcción de redes sociales de expatriados, pero la forma en que ese capital se crea y configura difiere entre los miembros. La novedad de nuestros resultados es que el valor del capital social creado dentro de esa CoP es más importante en las primeras etapas de establecimiento en el país y para gerentes con menos experiencia o sin conexiones previas. La heterogeneidad de las empresas en términos de actividad y de vínculos sectoriales añade valor y confianza a la red, pero limita sus oportunidades de cooperación. En cuanto al aspecto gerencial, la similitud de los miembros (edad, intereses, etc.) fomenta una interacción más frecuente entre ellos.

Este caso particular demuestra que hay diferentes etapas de desarrollo en las que las CoP construyen y crear valor (en términos de capital social) a través de su co-localización. Las evidencias muestran una situación actual que, aunque todavía latente, tiene potencial de desarrollo desde una etapa de "aprendizaje" hacia otra etapa de "creación de conocimiento". Encontramos que el rol de un agente intermediario (*bridging*) o facilitador de la red es especialmente relevante para el desarrollo del clúster, para construir un *guanxi* vertical e instrumental y para gestionar el conocimiento de la red.

La evidencia sugiere que, por un lado, la CoP necesita que un cultivo intencional y, por otro lado, la existencia de un agente facilitador juega un papel crítico en ese proceso. No sólo actúa como una empresa de anclaje, sino que facilita las interacciones formales e informales entre los miembros, y actúa como un gestor de información gracias a la dimensión relacional desarrollada en el parque. Sin embargo, la dependencia de los miembros de este tipo de agentes como intermediarios entre el entorno interno y externo podría limitar el potencial de explotación de los recursos de la red. Estos facilitadores son importantes para desarrollar la cooperación e impulsar las fuerzas sinérgicas del parque, pero se requiere un fuerte liderazgo en su función.

En resumen, si bien existen investigaciones sobre los hándicaps de las empresas extranjeras, los resultados adversos asociados con la adaptación cultural no han dado espacio a la investigación sobre las ventajas de la diversidad y la gestión intercultural. Los resultados de esta investigación sugieren que el capital social generado en aglomeraciones geográficas interempresariales de compatriotas puede contribuir no sólo a la reducción de esos hándicaps (LOF y LOO), sino también al intercambio de conocimientos interculturales en los mercados asiáticos. Sin embargo, si la aglomeración llega a ser demasiado cerrada, puede agravar la integración sociocultural entre los expatriados y los trabajadores locales o la comunidad y su entorno, limitando así su capacidad de explotar el valor de dicha diversidad.

Conclusiones generales:

En general, las redes y, en particular, los clústeres de país de origen constituyen una opción adecuada de entrada y localización que facilitan la transnacionalización y el aterrizaje en mercados lejanos generando ventajas de conocimiento y reduciendo los hándicaps que las empresas encuentran en el extranjero. Al enfocarnos en los COO clústeres, nos basamos en investigaciones previas que llaman a futuras investigaciones sobre estrategias de clústering que tomen en cuenta los grupos étnicos y los antecedentes

culturales de áreas particulares dentro de China. Estas redes de naturaleza geográfica proporcionan las condiciones necesarias para gestionar operaciones internacionales en mercados distantes, ya que facilitan un conocimiento explícito y tácito necesario para abordar este proceso. Estas redes construyen un capital social internacional de forma dinámica. En esa construcción, la diversidad importa, ya que hace que algunos miembros perciban y obtengan un valor diferente de dicha red, en diferentes términos y niveles. De todas formas, hemos visto que el capital social puede ser cultivado, coordinado y gestionado de forma intencionada dentro de este tipo de clusters, lo que demuestra el potencial de estas redes como plataformas que aporten valor a sus miembros (filiales).

Además, el análisis de este tipo de clústeres va más allá de la literatura convencional que se focaliza en redes de empresas donde el punto de encuentro es la actividad, no la nacionalidad o la proximidad cultural. Existe una heterogeneidad y variedad interna entre los participantes. Esto es, aunque las empresas parten de un mismo sitio (país y región) y se juntan en una misma ciudad en China, no todas siguen el modelo de co-localización, ni todas las que siguen ese modelo perciben la realidad de igual manera. Es por ello que este trabajo se centre en analizar los determinantes que han provocado esa decisión.

Como resultado, podríamos describir algunas contribuciones teóricas, prácticas y políticas. Nuestro trabajo contribuye a las teorías de la aglomeración y enfoque de redes de la gestión internacional de empresas, evidenciando el potencial que tiene la internacionalización a través de las redes geográficas. Desde esta perspectiva, también contribuye a explicar la formación de comunidades de práctica y capital social a nivel de país destino.

Otra implicación teórica es la integración que esta investigación proporciona entre la literatura de Geografía Económica (EG) e internacionalización (IB), que contribuye a desentrañar el *space* y el *place* de las empresas multinacionales. El enfoque macroeconómico del lugar como espacio homogéneo que ha pivotado en la literatura de IB puede no ser totalmente

adecuado para analizar los procesos de internacionalización y localización. En esta investigación se indica que el espacio específico y el sitio concreto influyen en las decisiones de las empresas.

Desde un punto de vista práctico, esta investigación ayuda a las empresas a tomar mejores decisiones de localización, ya que hay una heterogeneidad en los retos a los que las empresas se enfrentan, el potencial de externalidades adquiridas y el uso del capital social según los diferentes modos de localización. Los hallazgos podrían ayudar a las empresas a tomar decisiones con respecto a un modo de localización que les permita reducir riesgos, ganar legitimidad, compartir conocimientos y así ser más eficientes en su proceso de internacionalización.

A nivel político, la investigación puede arrojar luz en el diseño e implementación de estrategias que apoyen a las empresas en su proceso de internacionalización. Las instituciones deben considerar y promover estas plataformas como una herramienta viable que facilite ese proceso de internacionalización de las empresas. De manera similar, los gerentes y directivos necesitan analizar las ubicaciones desde una perspectiva más amplia que combine no sólo elementos económicos y de negocio, sino también aspectos sociales.

Entre las limitaciones de esta investigación podríamos mencionar que el estudio se ha centrado únicamente en China, por lo que no podemos generalizar estos resultados sin examinar las características idiosincráticas de este país. La tercera cuestión planteada en esta investigación se centra en un caso de estudio de 13 empresas vascas. Esto nos ha permitido controlar el efecto de origen, pero reduce la capacidad de extender los resultados de la investigación. Futuras investigaciones que se deriven de este estudio podrían considerar la comparación entre los dos parques que componen parte de nuestra muestra, el parque alemán y el parque de empresas vascas en Kunshan. Asimismo, se podría extender el estudio al análisis de otros parques similares en otras provincias o de otras nacionalidades. Consideramos que otra de las

futuras líneas que derivan de esta tesis podría centrarse en el análisis de la red en destino, no solo considerando los expatriados, sino también los empleados del parque u otras instituciones locales. Esta investigación no ha tenido en cuenta los datos recogidos a los empleados por limitaciones de tiempo y recursos, pero incorporará esos resultados en análisis futuros. También será interesante contrastar las percepciones de los promotores y empresas de servicios de dichos clusters, con las de sus filiales, participantes de la red. Asimismo, futuras líneas de investigación podrían enfocarse en el efecto del capital social, en el rendimiento, la supervivencia o desarrollo futuro de las filiales, así como considerar variables adicionales tales como la satisfacción de las filiales, sus inversiones futuras en China, ratios financieros, etc.

A pesar de sus limitaciones, esta tesis doctoral contribuye significativamente al conocimiento sobre la transnacionalización de empresas a través de clusters de filiales del mismo origen.

