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Subnational location capital: The role of subnational institutional actors and socio-spatial factors on firm location

Sinéad Monaghan, Patrick Gunnigle & Jonathan Lavelle

Synopsis

This study investigates how subnational institutional actors (e.g. subnational governance, regional development bodies, and educational institutions) facilitate location capital for multinational firms. Most research on location capital and inward investment has traditionally focused at the national level, yet due to a more nuanced level of engagement, the subnational level can contribute to firm location. This study demonstrates how inward investing firms can access crucial economic and social assets through relationships at the subnational level, namely activities such as localized initiatives and identified connections (structural location capital), managerial experience and local labour pools (relational location capital) and localized attitude and quality of life (cognitive location capital).

Introduction and Background

The location of multinational companies (MNCs) has fundamentally been premised upon national, economic drivers, including financial determinants, global value chain coordination and low-cost labour, which allow firms to build and retain proprietary knowledge, penetrate new markets and leverage global strategic options (Beugelsdijk, McCann & Mudambi, 2010; Dunning, 2009). More recently, the role of socio-spatial factors, namely a location-based form of social capital such as networks, personal attributes and experience, have been purported as a growing rationale for

MNC location (Tregaskis & Almond, 2018). Social capital theory highlights how firms access socio-spatial assets available within relationships and connections through three interrelated dimensions: structural, relational and cognitive (Adler & Kwon, 2002; Nahapiet & Ghoshal, 1998). As it is shared amongst individuals within a relationship, social capital can increase the efficiency of action for firms, reduce their transaction costs and contribute to collaborative, adaptive learning and innovation (Nahapiet & Ghoshal, 1998). Yet, we know relatively little about what relationships exist or how socio-spatial factors operate in facilitating location-based social capital.

We propose that subnational institutional actors - local regulatory and service-providing institutions with a functional remit to engage with foreign-owned enterprise at a subnational level - can intervene in the engagement of a firm with its location to communicate and facilitate subnational location capital. The subnational location is defined as the territorial and administrative jurisdiction below the national level of state governance yet above the community, municipality and city level (Santangelo, Meyer & Jindra, 2016). The overall aim of this research was to explore how subnational institutional actors facilitate locational capital for firms.

Issues and Questions Considered

There has been a shift in discourse on

AUTHORS



Dr Sinead Monaghan
Trinity Business School,
University of Dublin



Dr Patrick Gunnigle
Kemmy Business School,
University of Limerick



Dr Jonathan Lavelle
Kemmy Business School,
University of Limerick

location from national country level analysis to subnational level (Almond, 2011; Beugelsdijk et al., 2010; Cuervo-Cazurra, de Holan & Sanz, 2014; Dunning, 2009). While national-level location factors can inadvertently assume little to no intra-country variation, the subnational location offers a more nuanced perspective to location and spatial heterogeneity (Alcácer, Denzö & Zhao, 2015; Beugelsdijk & Mudambi, 2013; Lu, Song & Shan, 2018). Moreover, as socio-spatial attributes of firm location are premised on localized engagement, the role of subnational institutional actors is increasingly pertinent (Allen, Allen, & Lange, 2018; Buckley & Munjal, 2017; Cuervo-Cazurra et al., 2014).

This study adopts the lens of social capital to explore how subnational institutional actors facilitate location capital for firms. Nahapiet & Ghoshal (1998: 244) describe the model of social capital as a “socio-structural resource ... inheres in the relations between persons and among persons”. As social capital is effectively found between individuals and within relationships, it allows a deeper exploration of how firms foster subnational locational capital and the role of subnational institutional actors within this. Social capital is composed of three interrelated dimensions—structural, relational and cognitive—and this model has previously been used to explore intra- and inter-firm activities (Gooderham et al., 2011; Mäkelä et al., 2012). Drawing on the three dimensions of social capital theory, we posit that the socio-spatial attributes available to firms can be best understood as subnational location capital, namely the economic and social assets accessible through relationships within a location, which allow a firm to derive advantages.

Methodology

To explore this research question, we conduct an inductive, multiple case study of six MNCs in two subnational regions within Ireland and their representative subnational institutional actors. Two subnational regions were selected, based on their similar subnational institutional architecture, to allow a deeper exploration of the similarity and differences in activity of subnational institutional actors with MNCs across both regions.

Data collection comprised of qualitative interviews with senior MNC subsidiary managers and relevant subnational institutional actors. Fourteen semi-structured interviews, of approximately ninety minutes, were organized with key members of each MNC subsidiary. Concurrently, over thirty semi-structured interviews were held with subnational institutional actors within the local context. The subnational institutional actors included representatives of regional development agencies, educational

institutions, local and regional authorities, inward investment agencies, employer associations and service-providers such as training agencies and recruitment consultants.

Following established procedures for multiple case studies, we followed three stages of analysis, where we coded the MNC and subnational institutional data concurrently. Nvivo10© was used to systematically organize, manage and reliably represent the data analysis process. The analysis was iterative with repeated comparison of our data with the emergent analysis (Miles, Huberman & Saldana, 2014; Strauss & Corbin, 2008).

Outcomes and Findings

In this research, we show that firms do not simply locate. They seek to accrue value from their location, build knowledge relevant for the MNC network as a whole and utilize resources for innovative advantage. In most instances, these capabilities cannot be easily claimed from a location, but rather accessed through ongoing locational engagement. Building on social capital theory, we show that subnational institutional actors enable subnational location capital, allowing firms to identify, access and build greater opportunities within a location. We show that subnational institutional actors can foster three dimensions of subnational location capital for firms. Structural subnational location capital is evident in localized initiatives and identified connections, where firms can identify local institutional structures and industrial clusters, access markets, resources and knowledge whilst also developing existing partnerships and collaborations. Managerial experience and local labour pools encapsulate relational subnational location capital, which allows firms to accelerate local embeddedness, learning development, insidership and access to resources through relationships. Finally, localized attitude and quality of life form the cognitive dimension of subnational location capital and allow firms to develop social trust, innovation and a sense of market insidership. These three dimensions, and their composite activities, show that socio-spatial attributes are innately fostered within a subnational space, which offer firms the capacity to derive firm-specific advantages, such as access to resources and market, knowledge and innovative opportunities, social trust and labour market skills, from a location.

The importance of subnational location capital illustrates the fundamental source of spatial heterogeneity and firm-location dynamics for firms engaging with a particular location. As such, we enrich the understanding of how subnational institutional actors facilitate subnational location capital for MNC location.

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Authors:

Sinéad Monaghan, Patrick Gunnigle & Jonathan Lavelle

For further information and comments, please contact:

Prof Sheila Killian

Assistant Dean, Research

Kemmy Business School

University of Limerick, Ireland

T: +353 61 202237

E: sheila.killian@ul.ie

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