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An Institution-Based View On The Within-Country Location Choices For R&D Subsidiaries

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Resumo

Com base na visão baseada em instituições, propomos uma série de fatores que explicam a escolha da localização de subsidiárias de pesquisa e desenvolvimento, explorando a questão de por que subsidiárias de P&D escolhem uma região de um país em detrimento de outro para localizar. Propomos que as assimetrias institucionais e econômicas que existem entre as regiões dentro de um país são susceptíveis de gerar diferenças na capacidade de inovação. Estas diferenças terão impacto na escolha de localização das subsidiárias de P&D. Nós contribuímos com a teoria de negócios internacionais incorporando uma análise específica do local, que contrasta com a observação costumeira do nível nacional sobre os determinantes das decisões de localização das empresas.

Palavras-chave: Escolha de localização, diferenças regionais, ambiente institucional, inovação.

Abstract

Based on an institution-based view we propose a series of factors that explain location choice of R&D subsidiaries, exploring the question of why R&D subsidiaries choose one region of a country over another to locate. We propose that the institutional and economic asymmetries that exist across regions within a country are likely to generate differences in innovativeness. These differences will have an impact on international R&D subsidiary location choice. We contribute to IB theory by incorporating a location-specific analysis that contrasts to the usual country-level observation on the determinants of firms' location decisions and better explain location choices based on the differences within host-country institutional environments.

Keywords: Location choice; regional differences; institutional environment, innovation.

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1 Introduction

Research on innovation-driven multinational corporations has been increasingly significant in International Business over the last decades (Cano-Kollmann et al., 2016). To at least some extent that has meant delving into the institutional setting in which innovations are gestated and how MNCs explore (March, 1991) worldwide to acquire novel resources and learn. Knowledge of how to operate in foreign markets determines, at least in some extent, international location choice (Johanson & Vahlne, 1977). However, while we understand well that institutions develop differently across countries and that different countries have different national innovation systems (Lundvall, 2007), we have but a poor understanding of how the sub-national institutional differences may determine MNCs location choices.

Institutional contexts have increasingly received attention in recent years (Kim & Aguillera, 2015), due to a focus on an institution-based view (Peng, 2002) especially in emerging countries (Peng et al., 2008). Studies have investigated the effects of the institutional context on acquisitions (Pinto et al., 2015; Dow et al., 2016), subsidiary performance (Brouthers, 2013; Brannen et al., 2014) and location choice (Ma et al., 2013; Lu et al., 2014) of international operations. On the other hand, most of institutional-based studies consider nation-level institutions while a stream of research has defended that countries are not homogeneous amongst their internal regions (Beugelsdijk & Mudambi, 2013). Themes such as subnational region variations (Dai et al., 2013), global cities (Goerzen et al., 2013) and microfoundations of spatial perception (Piscitello, 2011) have the potential to contribute to IB theory regarding how institutional environments shape location-choice.

In this article, we propose that institutions are mostly asymmetric within countries, varying between cities and regions due to different economic, social and governmental backgrounds. These differences will have an impact on the innovativeness of regions and thus will determine international R&D subsidiary location-choice. Our purpose is thus to advance how the institutional and economic contexts are asymmetrical across regions within the same country, affecting innovativeness, and point out propositions of how these asymmetries can affect subsidiary location-choice.

This study has two main contributions to international business theory. First, we provide an optic for researchers to analyze how the sub-national institutional variation will determine location-choice. This contribution is important because it adds an institutional perspective not only to which country the MNC will choose to internationalize to, but also which region inside that country the MNC will choose to locate. Second, we provide a logic that might explain why some regions are more institutionally sophisticated and more innovative than others are.

2 Literature review

One of the key elements of international business is the border. Countries are essentially different from one another (North, 1990). Beugelsdijk and Mudambi (2013) have theorized that contexts vary broadly across regions since countries are not homogeneous within their borders and these differences have an impact on MNC strategies. That is, while the more commonly studied nation-level effects are very important, more attention needs to be devoted to regional-level effects on firms' strategies.

Location, for firms, is an issue more important than ever (Porter, 1998). Although Dunning (1998) has perceived location as an underdeveloped and neglected factor in international business, the field has received considerable attention over the last decades. Works as Ma et al. (2013), Lu et al., (2014) and Kim and Aguillera (2015) have shown that

ISSN: 2317 - 8302

the location issue is as important today as it was on the end of the 20th century. Location choice has a link to many International Business sub-areas because it is a central concept to any international strategy decision (Dunning, 1998). Recent research has explored tight links between location choice and Institutional Theory (Kim & Aguillera, 2015). Many times, the papers that analyze institutional perspectives on location choice seek to understand what makes a firm choose a country over another (Beugelsdijk & Mudambi, 2013).

At a risk of oversimplification, firms choose to internationalize to countries that have shorter institutional distances in order to face less liabilities of foreignness (Berry et al., 2010). Researchers usually calculate institutional distance from one country to another, regardless of where in the target country the subsidiary will be installed (Beugelsdijk & Mudambi, 2013). However, some researchers have called for the attention to taking on account the specific characteristics of the location where the subsidiary will operate (city or region) rather than just the effects of border (see Dai et al. 2013; Goerzen et al. 2013; Piscitello, 2011). The basic assumption is that the border effects (the country-level distances and characteristics) are important, but the micro-level characteristics of the location should not be neglected (Beugelsdijk & Mudambi, 2013).

Strategies drive firms to locations (Lamin & Livanis, 2013). Although most research treat location choice as a matter of strategic decision (Alcácer et al. 2013), the characteristics of firm or subsidiary also have influences on location choice. For instance, Doh et al. (2008) propose that location choice will be different for different types of offshoring services (interactive, repetitive or innovative). Location choice not only acts as strategy but also has consequences for firms, since depending on the location and firm characteristics, firms may use different entry modes (Agrawall & Ramaswami, 1992).

2.1 Institutions

Countries are essentially different in many aspects, possessing different cultures, laws, ways of living and doing businesses (North, 1990). The institutional settings have a strong impact on how firms will operate, since they need to deal with legislation, their peers and what is expected of them (DiMagio & Powell, 1983, Suchman, 1995). Hence, institutional framework may sometimes have a greater impact on the choice of FDI location than other more classic explanations, such as the economic environment (Kang and Jiang, 2012).

It is essential to understand the institutional systems in international business (Peng et al., 2006). As "Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction" (North, 1990, p. 3), firms need to take on account the institutional constraints, inefficiencies and particularities of a country in the decisions of internationalization (Chan & Makino, 2007). Consequently, the institutional context in which firms are immersed has decisive implications to the international strategies of firms (Kostova & Zaheer, 1999).

All firms are susceptible to the institutional pressures that may arise from their environment, which may lead to three kinds of isomorphism, mimetic (mimicking successful firms in search of success and legitimacy), coercive (bending through legislation pressures) and normative (professional norms and lore of doing things) (DiMaggio & Powell, 1983). Firms need to cope with these pressures in order to deal with their environment and operate properly, many times engaging in isomorphic behavior (Hillman & Wan, 2005). This isomorphic behavior is higher in contexts where the institutional environment is very different from the one in the home-country, and lower where the environment is more similar with the home-country (Salomon & Wu, 2012). Evidences suggest that isomorphism can take decisive roles in the behavior of firms engaging in international business, commanding entry modes

(Lu, 2002), financial decisions (Henisz, 2003), and legitimacy-seeking behavior (Meyer et al., 2014).

The diversity of institutional frameworks present a major challenge to firms operating overseas. Some countries have so little in common that they may present major economic disparities as different types of capitalism (Jackson & Deeg, 2008) or cultural settings that determine interpersonal relations as the behavior of executives (Lau et al., 2002). These institutional differences demand firms to shape their structures and governance setting in order to cope with each nations framework (Daniel et al., 2012).

Due to institutional inefficiencies, many constraints rise to the concerns of firms. Formal institutional inefficiencies as poor property rights, contract enforcement and flawed regulatory structures (Khanna & Palepu, 2000) will raise uncertainty in contracts between firms. If firms do not know if their contracts with suppliers and distributors will be carried out optimally or will suffer from possible opportunistic behavior, transaction costs will rise due to this uncertainty in procuring operations and resources outside of the firm's boundaries (Williamson, 1981). On the other hand, firms have difficulties in adapting their governance to the institutional uncertainties that are risen by volatile and weak institutional systems (Roth & Kostova, 2003). Poor formal institutions lead to uncertainty about the rule of law – and therefore uncertainty of punishment and criminal implications to opportunistic behavior – as well as informal institutional constraints lead to corruption, bribery and misconducts.

A key concept of institutional theory is legitimacy. Legitimacy is conferred by social actors (Ashford & Gibbs, 1990) and is defined as the congruency between the organization and the values and actions expected by the social actor (Pfeffer & Salancik, 1978). Firms will look for legitimacy primarily from two social actors, the government regulators (which are represented by legislation and legal definitions) and the general public (Deephouse, 1996). There are three primary forms of legitimacy, pragmatic (which relies upon audience self-interest), moral (narrative approval) and cognitive (which follows what works and peer norms) (Suchman, 1995).

The search for legitimacy explains a great part of isomorphism (DiMaggio & Powell, 1983). Firms will mimic more traditional, successful and more legitimate firms, and will abide to industry norms, moral standards, and government legislations in order to be considered legitimate (Deephouse, 1996). Hence, the search for legitimacy can largely influence strategic choices of the firm (Pfeffer & Salancik, 1978).

In this paper, we defend that places (regions, cities) within a country have specific institutional contexts, distinct, but still dependent from country-level institutional context. The evidences for our premise are abundant. First, historical and economic conjecture of a society shapes the institutional context (North, 1990). The factors that drive institutional contexts go far beyond government regulatory laws, the very culture of the society and even the firms operating in a place can have an impact to the development of institutions (Faulconbridge & Muzio, 2015). Second, institutional change is an integral part of economic development (Rafiqui, 2009).

Different economic and social developments that regions have will generate different institutional contexts across regions. Regions vary greatly across each other in history (Combes, 2011), economy (Krugman, 1991; Winters, 2013) and culture (Hofstede, et al., 2010; Andersson & Henrekson, 2014). These differences will generate variations of the institutional context due to different market norms (that arise due to different economic situations and resource availability), and different government regulations (due to regional governances) resulting in different coercive and normative pressures (DiMaggio & Powell, 1983). Different regions also present differences in general society, with different needs and aspirations. A slightly different society means that firms will suffer different legitimacy

ISSN: 2317 - 8302

pressures, since pragmatic legitimacy depends greatly of the society that the firm is directly in contact with (Suchman, 1995).

2.2 Local innovation

The differences between places in the same country have consequences to several actors. Even some developed countries have large differences in wages, labor force participation and employment across places in their territory (Winters, 2013). For instance, some places are historically and culturally more prone to entrepreneurship (Andersson & Henrekson, 2014) and thus sprawling a higher concentration of firms and consequently, human capital. The differences in employment, labor force participation and wages are largely determined by the concentration of human capital, which acts as a positive externality due to intellectual spillovers (Winters, 2013).

Countries have different settings regarding innovation incentives and support, which result in different innovativeness environments, largely due to different National Innovation Systems (or NIS) (Lundvall, 1992). National innovation systems are formed by public policies and firms initiatives that guide and support innovation efforts in a country (Nelson, 1993). The innovation system has two main dimensions, economic and institutional (Lundvall, 1992). The economic side of national innovation systems relies on the firms that act in the country and how they approach and fund innovation. On the other hand, the institutional dimension is determined by public policies, as institutional pressures (legal, cultural, isomorphic, legitimacy) that drive the innovation in the country.

Research regarding national innovation systems has gone hand in hand with policy-making in countries since its beginnings (Lundvall, 2007). Historically, international competitiveness has studied the innovativeness of a nation as a factor (Mowery & Oxley, 1995). Three factors must be taken on account when analyzing national innovation systems. The “nation”, the “innovation” and the “system” (Lundvall, 2007).

The usual focus of national innovation systems is at nation-level, but some research streams have considered other approaches (Lundvall, 2007). Although broadly debated, the innovation system can be different depending the region within the country, not being homogeneous in the whole territory (Cooke, 1997). Economic industries also can develop their own innovation systems, based on the norms and practices inside the industry (Breschi & Malerba, 1997). Countries that, for instance, have different state-laws can have laws that benefit innovation in one state (as better intellectual property rights) that do not apply in other states, as is the case of the USA. These evidences point out that the innovation system (or innovation systems) is not uniquely determined by the borders of a country, but can interchange and differ inside the country and throughout economic industries.

3 Intra-country location choice for R&D subsidiaries

Institutional contexts are different from one region to another, along with geographic and economic contexts (Beugelsdijk & Mudambi, 2013). We propose that firms observe the regional aspects just as national aspects when deciding the location of an international subsidiary. Regions have different institutional factors regarding innovation, especially, policy-making and normative procedures that can be different amongst regions from the same country supporting innovation initiatives, talent formation and attraction (Combes, 2011). On the other hand, firms will avoid institutional environments that pose threats to their operations through high criminality, low rule of law and low protection of property rights, labeling these environments as “weak” institutional contexts (Khanna & Palepu, 2000). In essence, firms

will choose intranational contexts that are more suitable for their operations (Beugelsdijk & Mudambi, 2013).

> ***Baseline Proposition***. *MNCs are likely to search for locations that have institutional systems that will support R&D and will not hinder their operations to locate their R&D subsidiaries.*

The differences between regions of the same country are remarkable, as centers and peripheries form in most countries, presenting highly populated and economically larger centers in a region as well as rural peripheries in other regions (Krugman, 1991). Examples are abundant. São Paulo and Mexico City are two of the most populated cities in the world since the 1900's, being economic and social centers to their nations, while other regions of their countries as the Amazon rainforest and the Chihuahuan desert are majorly unpopulated. The same applies in developed countries, the United States has the bulk of its population living in the East Coast despite having fertile land in most of its territory (Krugman, 1991) and major employment and wage differences across regions (Winters, 2013).

Urban development is the main reason for regions to become centers or peripheries (Krugman, 1991). People agglomerate in cities due to urban benefits but are not agglomerated in only one city due to the urban costs, these benefits and costs grow with the scale of the city (Combes, 2011). Urban regions will also grow based on the consumption potential that they generate, thus attracting firms to explore the agglomeration (Glaeser et al., 2001).

Countries will have centers and peripheries, centers being social and economic hubs that connect the regions to other regions of the country and the country to other countries (Krugman, 1991). Centers result of the agglomeration of firms and resources (McCann, 1995). These centers are generally large cities that combine scale and urban benefits (as well as liabilities) that are characteristic to these cities (Combes, 2011). These centers attract firms to explore the agglomeration and its advantages (Glaeser et al., 2001). Centers are created in countries due to the agglomeration of firms and resources (McCann, 1995). The reasons for the development of agglomerations of firms in countries are basically three. The concentration of firms from the same industry in a region offers more employment possibilities to workers with industry-specific skills, this agglomeration can also support the production of specialized inputs that are not tradable, and the possible information spillovers in agglomerations can increase performance of clustered firms (Krugman, 1991).The agglomeration of firms in these centers will produce an environment that leverages the human capital due to intellectual spillovers (Winters, 2013). On the other hand, as peripheries are less interconnected than centers (Goerzen et al., 2013).

The agglomerations of people and firms that centers provide will develop institutional systems that have industrial standards of cognitive legitimacy (due to the number of firms that operate there) (Suchman, 1995). The higher development of workforce due to information spillovers and the development of specific skills (Krugman, 1991) will help establish high standards for the operations of firms. These industrial standards will likely also become regulations either government or industry regulatory powers, which will increase normative and/or coercive pressures (Dimaggio & Powell, 1983) into the firms operating in these centers to obtain legitimacy (Suchman, 1995). Hence, suppliers will abide by higher industry standards and universities will form professionals that can work in these higher standards. Higher standards of quality in operation of R&D will positively influence regional innovativeness, which will contribute to the operations of R&D subsidiaries.

ISSN: 2317 - 8302

> ***Proposition 1.*** *MNCs are likely to search for locations that are centers or close to centers to locate their R&D subsidiaries.*

The innovativeness of a region is highly determined by its culture. Mueller and Thomas (2001) suggest that countries with low uncertainty avoidance (one of Hofstede's (1983) culture dimensions) will have more innovative entrepreneurs than countries with a high uncertainty avoidance. Since there are evidences that culture has variations within countries, from region to region (Hofstede et al., 2010), it is possible to conclude that innovativeness can be different from one region of the country to another.

Regions that have an innovative culture will foster innovation by two ways, regulation and formation of human resources. As Etzkowitz and Leydesdorff (2000) propose, there must transactions and the building of networks between government, industry and universities in order to develop a competitive and sustainable innovation environment. While national innovation systems will build on the proposition that the industry must drive innovation (Nelson, 1993), the triple-helix approach will propose that innovation must be driven by the universities (Etzkowitz & Leydesdorff, 2000).

Regions that have cultures more prone to innovation will build regulations that leverage innovation and universities to train human resources. We expect that R&D subsidiaries will rather choose locations that have more innovative culture because these regions will develop regulations to foster this culture and keep these efforts of supporting innovation. Hence, we propose that firms will choose locations within a country to locate their R&D subsidiaries where there is a culture that values and supports innovation, most likely as Mueller and Thomas (2001) propose, have a low uncertainty avoidance trait.

> ***Proposition 2.*** *MNCs are likely to search for locations that have cultural traits that support and value innovation to locate their R&D subsidiaries.*

The microfoundations of economic differences between regions can be traced to historical antecedents. The rate of entrepreneurship in a region is path-dependent and can be rooted to a random historical event or a natural asset (Andersson & Larsson, 2016). The process of development of a place as a center also seems to be circular. Firms will prefer to cluster due to information spillovers and the supply of industry-specific skilled workers (Krugman, 1991) which will generate human capital due to the development of the place (Winters, 2013). Human capital will attract firms and the agglomeration will grow until the costs of agglomeration overcome the benefits (Combes, 2011). Public policy also plays a role on the creation of agglomerations, since policy-makers develop incentives to attract "talents" and lure industrial facilities (Combes, 2011).

Clusters, or agglomerations of firms possess some important advantages (Porter, 1998), and these advantages make regions that possess clusters more suitable for location choice than others. Previous research has proven that clusters can reduce liabilities of foreignness and also bring potential knowledge spillovers (Lamin & Livanis, 2013). Regions with high agglomerations of firms will also possess greater concentration of human capital dedicated to the specific industry that most firms of the agglomeration belong to (Winters, 2013).

Due to these advantages of agglomerations of firms, agglomerations may seem a natural choice for R&D subsidiary location (although Pouder and John (1996) have argued that only some kinds of firms prefer agglomerations). Agglomeration will seem more proper location choices to immediate stakeholders (as employees, board members and shareholders) since they present a set of advantages to the firm, advantages that would not seem achievable outside of the agglomeration. For these stakeholders, the choice for agglomeration will more

likely be viewed as the "right choice" and this will exercise a pragmatic legitimacy pressure (Suchman, 1991) which will make the firm choose for the regions that have agglomerations.

***Proposition 3**. MNCs are likely to search for locations that have agglomerations of firms from the same industry to locate their R&D subsidiaries.*

Firms often seek legitimacy in their international operations according to the institutional contexts they internationalize to (Meyer et al., 2014). Firms need to abide to the actions expected by the social actors to achieve more legitimacy (Ashford & Gibbs, 1990; Pfeffer & Salancik, 1978). One of the major alternatives for firms to achieve legitimacy is to engage in isomorphic behavior (DiMaggio & Powell, 1983; Deephouse, 1996).

Researchers have pointed some strategic choices that contribute to firm legitimacy. Dacin et al. (2007) pointed out that firms will engage in strategic alliances in order to secure legitimacy by associating with firms that are considered more legitimate. Deephouse (1996) proposes that firms will engage in isomorphic behavior looking to become more legitimate, and tested this assumption, building an empirical bridge by proving that isomorphism brings legitimacy. Bitekine and Haack (2015) propose that firms will have strategic responses to institutional change, seeking legitimacy.

We propose that isomorphic behavior will have an effect over region location choice from R&D subsidiaries, especially in the case of firms that do not already have legitimacy in the country. For instance, a new technology firm entering the United States will locate their R&D subsidiary in the Silicon Valley, not only due to cluster spillovers of technology and human capital, but also because of isomorphism, since technology firms from the Silicon Valley will be perceived as more legitimate in their industry than in other parts of the country. Hence, we propose that firms will co-locate due to mimetic and normative isomorphism, in search of legitimacy.

***Proposition 4.** MNCs are likely to search for locations that that are common to firms in their industries due to isomorphic pressures to locate their R&D subsidiaries.*

4 Discussion and concluding remarks

In this article, we discussed the factors that determine location choice of R&D subsidiaries in International Business. We specifically built four propositions (along with one baseline proposition) that will explain how regional institutional differences will determine international R&D subsidiary location choice within regions of the same country. The main motivation for this study is the call from Beugelsdijk and Mudambi (2013) for a more detailed explanation of the differences between regions of the same country and their impact on location choice. Most studies, for instance Dow et al. (2016) Brouthers (2013) Brannen et al. (2014) and Lu et al. (2014) have observed the effects of country-level factors in performance and location choice of firms. We contribute to International Business theory by providing a series of explanations that, together may explain why firms will pick one region over the other for their R&D subsidiaries.

Our study brings a perspective for researchers to interpret factors that make firms decide for one region over the other. Past research has greatly debated the cluster effects over international subsidiaries (Lamin & Livanis, 2013). But differences in geographic centrality, institutional factors and innovativeness of the region are still very understudied topics. Our study suggests that firms will not only choose a location based on one factor or another but on a construct of four factors, geographic, economic, institutional and innovational. Hence, we

expect this paper to assist researchers to observe inner-country location choice in an integrative perspective rather than an isolationist one.

Our main contribution is the use of institutional theory in a sense of regional analysis. Although not innedit, the regional perspective of institutional environment is a very understudied topic in IB theory. Our paper contributes by proposing that local institutions do matter because they will shape the inovativeness of the region, along with regional norms and regulations that will make them more suitable to international R&D subsidiaries.

The second contribution of this paper is, in some extent, an explanation of why some regions are much more prone to receive innovation subsidiaries than others. For instance, regions as China's Guangdong, France's Grenoble-Isére and USA's Sillicon Valley are references of innovative regions. We propose that these regions are innovative largelly due to cultural antecedents, that sparkled regulations and universities that fostered innovation, becoming centers and attracting firms due to high normative standards and finally becoming isomorphic choices for locating firms.

Our paper brings some insights to clustering and agglomeration. As Porter (1998) has highlighted, clusters are nowadays vary important in business strategy, and our perspective may bring some insight not only to subsidiary location choice, but also to the formation of clusters. Clusters will be impacted by geographic factors, since firms will more likely agglomerate near natural resources and geographic centers, economic agglomeration will also become attractive, bringing more firms to agglomerate (Winters, 2013), this agglomeration will change institutional context by isomorphic behavior and by changing local policy, which will also change the innovativeness of the locality. This has important impacts for firms since clusters are important to the understanding of location choice (Kim & Aguillera, 2015).

4.1 Future research avenues

Certainly, the various institutional facets that characterize sub-national locations (regions or even cities) are prone to be highly intertwined. For instance, geographic determinants will influence economic factors (Krugman, 1991). These economic factors will determine if the industries in that region are abundant and developed (Winters, 2013). Regions with an abundance of firms in an industry will have industry standards developed by the industry itself, as well as government regulations developed by governments concerned with these firms, Hence, the institutional environments will be different. Therefore, to gain an even clearer grasp on how each specific and individual institutional facet may drive location selection decisions, more research is warranted to isolate each institutional dimension. For instance, firms may locate to some regions because they have specific laws fostering their activity, or may even avoid some regions because of high industry standards they cannot (or rather do not want to) abide to.

Simon's (1965) concept of bounded rationality proposes that executives will not be rationally able to think of all factors regarding a decision. The institutional environment of a region is always a complex unity of analysis because it suffers influences from pressures of many publics (Suchman, 1995). Hence, it is not possible to generalize that decision-makers will consider all the factors we provide here. Future research could use a historical approach to investigate how the decision-making process takes place when firms decide the region they will establish their subsidiaries. This research can contribute by pointing to which degree the decision is took based on careful analysis and when does it rely solely on isomorphism.

Location choice is an issue that has lined International Business studies for the last decades (Kim & Aguillera, 2015). Although highly important, location had been an underdeveloped area in IB (Dunning, 1998). We follow Beugelsdijk and Mudambi (2013) and

ISSN: 2317 - 8302

highlight the importance of not looking only at border factors, but also inner-border factors. This is a bridge from Economic Geography to International Business that is highly understudied and deserves attention from both areas. Future research could contribute to both theories by analyzing how specific factors in geography determine location choice. For instance, firms that choose to locate to a region previously not common to firms in that industry probably resorted to geographic factors to choose that region. Issues as travel-time (Boeh & Beamish, 2012), centrality (Krugman, 1991), historical (Combes, 2011) and even cultural ties to the home country may be roots to explanations that could make within-country location choice more clear.

Within-country location choice is a topic that is still understudied in International Business and should receive more attention. Differences amongst regions are due to several factors and all these factors contribute to a different outcome in location choice. It is important for researchers to not only consider border effects when studying location choice, but also the regional effects, as these seem to be highly neglected in literature. Country and border effects are very important, but we suggest that regional effects must also be taken on account. The use of region-level data could bring some important contributions to International Business both in theory and in empirical tests, as independent and control variables.

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