

Multinational enterprises and global cities: a contribution to set the research agenda

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Introduction

Dunning's (1998) JIBS Decade Award article represents a landmark in international business research. By shedding light on the at-that-time-neglected location-advantage, it called for greater attention to the spatial dimension of the activities of multinational enterprises (MNEs). This call has over time increased the sensitiveness of international business scholars to the geography of MNEs' activities and shifted attention from the country to sub-national locations as sources of specific competitive advantages and disadvantages (Mudambi *et al.*, 2018, Narula and Santangelo, 2012).

At the heart of this shift lies the idea that cross-country analyses enable to capture qualitative discontinuities associated to national border crossing, but they overlook the sub-national spatial heterogeneity that seems to drive MNEs' strategy, and especially location decisions (Beugelsdijk and Mudambi, 2013). Parallel to this argument is the one that location benefits typically operate through face-to-face contacts, which enhance trust and facilitate knowledge transfer (Storper and Venables, 2004).

These considerations have spurred interest toward more fine-grained analyses on the geography of MNEs and prompted international business scholars to cross the boundaries of other disciplines (e.g. economic geography) (Mudambi *et al.*, 2018) to account for "micro-location" level units such as global cities, which have come to play a growing role as central nodes in the networked global economy (Amin and Thrift, 1992).

The recent studies on MNEs and global cities have primarily looked at global cities in relation to MNE entry as well as location decision of corporate functions and value chain activities. Yet, due to the infancy of this nascent literature, it remains to be established how a focus on global cities can help advance international business research beyond the argument of the relevance of sub-national spatial heterogeneity for MNEs' operations. Also, international business scholars have borrowed from other disciplines to develop a more finely grained understanding of the geography of the MNEs. The question that now arises is whether international business research can inform the conversation on global cities, which takes place in other fields such as economic geography. Thus, an effort is required to first draw the major conclusions and contributions of the recent research on MNEs and global cities to then be able to draft an agenda that may facilitate future developments on the topic.

This special issue section intends to initiate this agenda-setting effort. To this end, this editorial provides a brief overview of research on MNEs and global cities and, based on this, identifies three sets of research questions that may guide further investigations. The papers within this special issue section contribute to this effort as they start addressing some of these questions and open the way to further reflections that may inform future research developments.

MNEs and global cities

One-third of the world's large companies are located in 20 major cities that generate more than 40 per cent of the combined revenue of all large companies (McKinsey Global Institute, 2013), and this pattern is forecasted to be a long-term trend (KPMG, 2015).

The functional approach to global cities' definition (Beaverstock *et al.*, 1999) highlights that global cities offer a cosmopolitan environment, high levels of advanced producer



services (i.e. finance, law, accounting and advertising) and a high degree of interconnectedness to local and global markets (Beaverstock *et al.*, 1999; Brown *et al.*, 2010; Goerzen *et al.*, 2013). They represent local buzzes that ease face-to-face contacts and, thus, enhance trust (Storper and Venables, 2004).

Research on MNEs and global cities has related this global cities' feature to an uncertainty-reducing role of these locations in connection with the liability of foreignness that the firms suffer when operating abroad. In particular, foreign firms operating in global cities do not suffer from the liability of foreignness to the extent suggested by theory because these cities host more foreigners and experts, who are capable of dealing with broader issues, than other locations do (Nachum, 2003). Although this uncertainty-reducing feature of global cities tends to decline with advances in institutional harmonization at the supranational level as in the EU context (Blevins *et al.*, 2016), it remains relevant for specific investment motives, proprietary capabilities and business strategy (Goerzen *et al.*, 2013), ultimately driving the location of MNEs' activities in global versus local cities.

Drawing on research aiming at integrating the study of world cities into the framework of global production networks (Jacobs *et al.*, 2010; Sassen, 2010), research on MNEs and global cities has also investigated the location of specific functions and activities in global value chains (Belderbos *et al.*, 2016). A prominent argument is that MNEs tend to locate more control functions and upstream activities than manufacturing and downstream activities in global cities. This pattern has been explained with the connectivity advantage that global cities can offer in terms of infrastructure (Bel and Fageda, 2008; Boeh and Beamish, 2012; McCann, 2010), corporate organization, information and knowledge flows (Lorenzen and Mudambi, 2012). This advantage is critical for the operation of MNEs' host country headquarter due to the strategic roles of these corporate units in the organizational space of the MNEs (Ma *et al.*, 2013). The multifaceted connectivity of global cities reduces several forms of spatial transaction costs, which, in turn, diminishes the role of geographic distance in location choice and, thus, favors headquarter location (Belderbos *et al.*, 2017). Also in relation to upstream activities, home global cities are the major control points of the global corporate R&D, and host global cities are the most important sites of corporate R&D activities (Somers *et al.*, 2016). Yet, a spatial hierarchy across global cities seems to exist (Musil, 2009), and this heterogeneity reflects in the diverse benefits and costs that different cities can offer to different types of corporate activities (Castellani and Santangelo, 2017).

Toward a research agenda

The major conclusions that can be drawn from research on MNEs and global cities are that this geographical level of analysis enables to account for the benefits related to a reduction of liability of foreignness and an increase in connectivity across corporate operations. At the same time, the conclusions that this research has reached raise a number of questions that remain open and, thus, offer fruitful grounds for future research.

The first set of questions relates to the relevance of location decisions in an era of profound structural and technological changes. The latest developments of the information and communication technology (ICT), which initially seemed not to have challenged firms' internationalization strategies and, if anything, facilitated them (Santangelo, 2001, 2002), open the way to less clear-cut strategic implications. Digitalization, for instance, enables direct and immediate interactions within corporate units, and between users and producers located in dispersed places. Due to its disruptive nature, digital technologies may offer

strategies to increase connectivity across corporate functions and activities that are an alternative to location and collaborative strategies (Cantwell and Santangelo, 2002; Narula and Santangelo, 2009). These transformations pose the following research questions:

- RQ1.* Are location decisions still relevant for corporate competitiveness in the digital era? What does a focus on global cities add to this discussion?
- RQ2.* Has the rising importance of cities influenced the geography of knowledge connections? If so, how and why?

The second set of questions relates to how a global city-level analysis can help move forward our understanding of the organization of the multinational network. While extant research on MNEs and global cities has focused on the location of control functions and different value chain activities, it remains an unexplored land how this micro-location level can help understand how MNEs decide where to locate different levels (i.e. first, second and third tier) of corporate units and why. Also, international business research has borrowed from other disciplines to investigate the geography of MNEs operations. The point is now whether international business scholars can inform the conversation in other disciplines. To this end, the following questions can guide future research:

- RQ3.* How can a focus on micro-locations such as cities help advance our knowledge on the geographical organization of different levels of corporate units within the MNE network?
- RQ4.* How can a greater understanding of MNEs' micro-location decisions contribute to research in other disciplines such as economic geography?

The third set of questions relates to the relevance of a global city-level analysis for international knowledge sourcing. Research on the topic has looked at different location units (e.g. sub-national region and metropolitan areas) and more recently at unconventional R&D locations such as emerging markets (D'Agostino *et al.*, 2013; Laursen and Santangelo, 2017). Science–MNE relations have traditionally attracted a great deal of attention in connection with international knowledge sourcing. Also given the advantage global cities offer in professional service, some technologies may more effectively ease international knowledge sourcing than others from and to these locations. This, for instance, could be the case of ICT whose technological pervasiveness may enable for serendipitous sourcing (Santangelo, 2002). Yet, we know very little about these aspects when it comes to global cities, and digging deeper into these as well as other aspects may help us advance our knowledge of the international knowledge-sourcing phenomenon. To this end, the following questions could offer guidance in this direction:

- RQ5.* How does international knowledge sourcing relate to local knowledge sourcing at the city level? Is there a pattern specific to global cities in “traditional” R&D locations *versus* global cities in recently emerged unconventional R&D locations?
- RQ6.* Are the connections between international and local knowledge technology-specific? Is there any role for science–MNEs relations when knowledge is sourced from and to global cities?

Contributions to the special issue session

The contributions of this special issue section are an initial step to address the open questions that stem from extant research on MNEs and global cities, and offer further reflections that may inform the research agenda on the topic.

In connection with the set of questions on the relevance of location decisions for corporate competitiveness in an era of profound technological and structural changes, Rachel Ortega-Argilés, Simona Iammarino and Philip McCann connect the shift in thinking in economic geography about cities, location and competitiveness with the major features of modern globalization as well as with the shift in international business research about questions regarding MNEs locations, to ultimately indicate the likely key influences on the future relationships between MNEs, competitiveness and cities in the current era.

Christian Geisler Asmussen, Bo Nielsen, Anthony Goerzen and Svenja Tegtmeier initiate the discussion in relation to the set of questions on the geographical organization of different levels of corporate units. Based on a data set of 3,949 foreign firms in Denmark that own a total of 4,084 subsidiaries located in Denmark and other countries, Geisler and colleagues bridge the literatures on subsidiary mandates and sub-national dimensions of foreign location choice, which have so far developed along separate routes and suggest that MNEs use global cities as bridgeheads—subsidiaries at intermediate levels of the ownership chain—that enable further international as well as sub-national expansion. Specifically, they extend the analysis to focus on multi-tiered “subsidiaries of subsidiaries” to examine how the geographic origins and destinations of these investments are associated with micro-location choices in a host country. Geisler and colleagues also offer insightful reflections that enable to foresee a contribution of international business research to parallel conversations in other fields.

By speaking to the literature on the changing geography of knowledge connections and focusing on the connections between local and global technological knowledge sourcing, John Cantwell and Salma Zama’s article contributes to parallel discussions in other fields such as economic geography. In particular, they provide a detailed picture of the changing knowledge-sourcing trends at a city-region level as well as the role played by a variety of knowledge connections in helping a city remain competitive. In particular, using USPTO data to study knowledge-sourcing trends for the years 1980-2016 across 33 global cities, Cantwell and Zama examine the influence of international knowledge sources on the capacity to build upon local knowledge sources in a city region and suggest that an increase in non-local knowledge sourcing tends to enhance local knowledge sourcing too. They also submit that ICTs have a significant effect on this relationship and that there are significant differences across cities in the extent and nature of this relationship, thus advancing the discussion on the relevance of location strategies against profound technological changes that seem to challenge the relevance of geographical proximity.

The contributions to this special issue section do an excellent job in starting addressing some of the questions that arise from the conclusions extant research on the topic has reached so far. At the same time, the articles in this special issue provide insights for future investigations, which may help addressing the questions that are left open. We are, thus, confident that this special issue section can offer fruitful grounds to expand our knowledge of MNEs and global cities.

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