

# THE BUSINESS OF LOCATION: SITE SELECTION CONSULTANTS AND THE MOBILISATION OF KNOWLEDGE IN THE LOCATION DECISION

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## ABSTRACT

Consideration of the work of site selection consultants provides a window onto the frictions inherent in the location decision. In this paper, we draw upon interviews to interpret selection consultants as intermediaries between a demand for locations emanating from MNEs and a supply of locations provided by national and subnational territories. We show how this intermediary role extends beyond the economizing on search costs and into the rarely appreciated market-creating and value adding opportunities offered by location. We also show how the knowledge mobilized by consultants is quintessentially geographical. Paradoxically, it is the geographical nature of the knowledge mobilised by site selection consultants that presents frictions to the professionalization and globalisation of the industry despite its seminal role in promoting the mobility of economic activities. In conclusion, we explore elements of a future research agenda centred on the mediated nature of MNE location decisions.

MNEs, the location decision, information economics, knowledge of place

## **INTRODUCTION**

The (re)location decision has been a central theme in research on international business with the range of location factors itemized by Dunning (1979). Since this time, ‘the boundaries of the firm have ... simultaneously shrunk organizationally and expanded geographically, while also becoming more porous’ (Contractor et al, 2010: 1418) with the fine slicing of value chains (Rugman et al, 2010) and the stretching of global production networks (GPNs) far and wide (Coe and Yeung, 2015) and with some companies ‘born global’ (Cavusgil and Knight, 2015). All of this suggests that there is little that is not known about prospective investment locations.

Perhaps as a result, much extant research implicitly assumes the routinely optimal nature of MNE location decisions, drawing conclusions from the revealed geography of economic activity. Such assumptions can be misleading (Buckley, Devinney and Louviere, 2007) especially given the ‘spatial margins to profitability’ (Smith 1970), whereby facilities remain profitable despite being sub-optimally located. Except for a narrow group of MNEs for which location is a central part of their ownership advantages and despite increases in the availability of information, there are significant costs and benefits of the location decision that remain under-appreciated. Indeed, the growth of a specialist site selection consulting industry is testimony to the costs involved in the location decision. Notwithstanding a specialist academic literature on site selection (Moriarty, 1980; Schmenner, 1982; Stafford, 1980) now found largely outside international business and economic geography (Chen, Olhager and Tang, 2014; Owen and Daskin, 1998; ReVelle and Eiselt, 2005), the knowledge

mobilised by managers and consultants in the location decision, its value to companies, but also the limits to mobilizing such knowledge, remain surprisingly under-appreciated.

In this paper we set ourselves two related research questions. (1) What roles do site selection consultants play in the location decision? (2) What is the nature of the knowledge that they mobilize? We draw on information economics to make two observations in regard to these questions. First, we note how the role of site selection consultants (and the location decision itself), extends beyond merely the reduction of search costs into a positive *market creating* and *value adding* one for corporations. (Re)location decisions emerge as ones potentially central to the generation of new competences (Cantwell and Mudambi, 2011) and ‘informed deviations from existing technological development paths’ (Bathelt and Cohendet, 2014: 870). Second, we note *the fundamentally geographical nature of the knowledge mobilized by consultants*. The nature of the knowledge mobilised by consultants reveals the enduring frictions in investment decisions involving individual facilities and the networks of locations organised by MNEs. It has also shaped the development of the consulting industry itself. In the following section we explain the original interview research with specialist site selection consulting companies in the United States (US) and the European Union (EU) upon which the empirical contribution of the paper is based. In the next three sections of the paper we: set the context by briefly outlining the organization of the site selection industry; show how it not only plays a role in reducing search costs but in creating new markets and adding value, and; illustrate how the geographical nature of the knowledge mobilized has constrained the development of the industry. In conclusion, we identify elements in a research agenda centred on further exploring the creation and mobilization of economic geographical knowledge in the location decision.

## **SITE SELECTION CONSULTANTS AS INFORMATION BROKERS**

For Buckley and Casson (1976) it was the transaction costs of protecting ownership advantages when operating abroad that drove the internalisation characteristic of the modern MNE. Dunning (1979) further specified the connections between ownership, location and internalisation. That knowledge of location specifically was missing from the list of ownership advantages is curious but perhaps unsurprising given the label ‘global scanners’ (Vernon, 1979) attached to MNEs.<sup>1</sup> Yet, even today, very few MNEs could accurately be described as such. The vast majority of MNEs are multinational by virtue of having crossed one national border to a territory that is culturally, linguistically or physically proximate (Petri, 1994). While managers appear rational in drawing up lists of investments to ‘consider’ they may be markedly less so when narrowing searches to the point of ‘investment’ (Buckley, Devinney and Louviere, 2007). And while experience is of positive assistance in the location decision, notably when moving from considering to investing (Buckley, Devinney and Louviere, 2007), the problem is that ‘for many executives, the choice of where to place their company’s next increment of capacity is a step into the unknown. Indeed, for all but the very largest corporations the location decision is an infrequent occurrence, a once in a career experience for the managers involved’ (Schmenner, 1982: vii).

The existence of specialized site selection consultants is evidence of the enduring costs associated with the location decision. Site selection consultants exist as part of an array of professional services industries that act as intermediaries in a ‘market for capital’ (Thomas, 2000, 2011) or a ‘market for social order’ (Bornschieer and Trezzinni, 2001) in which there is a demand for locations emanating from MNEs as investors and a supply of locations

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<sup>1</sup> Knowledge of location is noted indirectly by Dunning (1979) as an ownership advantage under ‘exclusive or favoured access to inputs’ that need not arise due to multinationality and ‘better knowledge about information, inputs, markets’ which arise specifically because of multinationality.

represented by national and subnational territories and their governmental and promotional bodies. Together these industries effectively fix erstwhile mobile or footloose investments in particular places (Phelps and Wood, 2006). The fuller significance of this intermediary role is revealed in the value-adding and market-creating opportunities (and not simply the costs) that location presents. However, what sets site selection consultants apart from other professional services intermediaries involved in the location decision are the constraints on the development of this nascent industry posed by the knowledge they mobilize. As those consultants most concerned with understanding location and mobilizing knowledge that is distinctly geographical, site selection consultants are less internationalized and professionalized than their MNE clients and other professional services companies.

### **Search costs and the location decision**

Casson (1997b) identifies five generic roles for intermediaries: search, specification, negotiation, completion and enforcement (see table 1) and argues that information economics concentrates unduly on the ‘adversarial use of information rather than the use of information for active purposes’ (Casson, 1997a: v). There is, however, a positive side to this story in that ‘Intermediaries take responsibility for handling much of the information flow that is needed to make the economy work. They are specialist bearers of information costs’ (Casson 1997b: 155). Aside from the completion of contracts where consultants conceivably have no role, table 1 indicates that the major role that site selection consultants play is in the first of these – the search costs involved in finding a suitable location for an investment regardless of the different corporate functions, tasks or asset classes involved. Information economics suggests that market intermediaries come to play an important role under conditions of imperfect (missing, incomplete or asymmetrical) information.

**Table 1 here**

Economization on the search costs is an explicit focus for the economic geographical knowledge mobilized in the location decision for a majority of MNEs, since location is really only an ownership advantage (Dunning, 1979) or dynamic capability (Teece, 2007, 2014) of a limited number of MNEs drawn from the extremes of the value chain - those concerned with the exploitation of natural resources and those concerned most intimately with consumers. The former are location experts since the business proposition exists in the first instance from an ability to identify geologically fixed deposits. The latter are experts in the location decision by virtue of sensitivity to the fine grain potential of consumer markets and urban real estate markets. The subtlety of the ownership advantages (in creating and refining a business model and in reproducing that model in suitable geographical locations) of these ‘replicator’ MNEs has rarely been appreciated. As Winter and Szulanski (2001: 740 emphasis added) describe, ‘apart from the capabilities directly related to knowledge transfer, the replicator may have other firm-level advantages in replication capabilities, *such as site selection and acquisition*’.

Between these two extremes lie an array of MNEs for whom the location decision, although not central to their ownership advantages, can have a very significant impact upon the success of individual investment projects and overall business performance. Anecdotally, the difficulties of handling the information attached to ‘getting location right’ are apparent in a stream of failed individual FDI projects, some of which threaten the very existence of the MNEs concerned (Thompson, 1961). It is likely that companies have erred in the location decision as a result both of the invisible costs (Stringfellow et al, 2007) and the herd

mentality or ‘oligopolistic reaction’ (Knickerbocker, 1973) associated with FDI and offshoring.<sup>2</sup>

### **The value added to investors through specification, negotiation and enforcement**

Site selection consultants also add value to direct investment projects when contributing to the specification, negotiation and enforcement of contracts surrounding location. They often have a role to play in specification. In particular, there is a role for site selection consultants in synthesizing and translating otherwise aspatial attributes of the business proposition contained within individual FDI projects into appropriate geographical options. This can be the case whether project criteria dictate very particular site specific considerations or whether they present great latitude in possible locations. Here, then, the fact that MNEs employ “service only” subcontractors to add value has been overlooked in much extant theory in international business which typically does not deal well with situations intermediate between internalization and market transactions (Casson, 2013: 10). Indeed, intermediaries may be market *creating*, adding to the core ownership advantages of MNEs.

Site selection consultants also add value for corporations when playing a little appreciated role in negotiation and enforcement. Some are specialists in incentives negotiation while almost all routinely convey information regarding incentives on offer in their work (Shapiro, 2010). While none realistically play a role directly in enforcement of the conditions surrounding an individual FDI project, collectively they can contribute indirectly to enforcement through creating a particular ‘climate’ in which competition for FDI takes place. Indeed, the notion of ‘the business climate’ was a key contribution of the first site

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<sup>2</sup> A plausible narrative of the offshoring-reshoring path is that firms have moved activities offshore based on easily measurable costs (e.g. price quotes) and have reshored upon learning first-hand about the risks and hassles of offshoring (Gray et al, 2013).

selection company – the Fantus Factory Locating Service founded in Chicago in 1917. For Thomas (2011: 159) ‘The rise of site location consultants has had a profound effect on bargaining between companies and governments ... they have specialized knowledge, they provide information to investors and help coordinate their behaviour’. The enforcement role of such intermediaries is implied in the coordination in behaviour their activities *may* engender.

### **The nature of the knowledge mobilized**

Site selection practitioners commonly distinguish between tangible (quantifiable) and intangible (non-quantifiable) information associated with the location decision. Much of the information needed for the initial stage of the location decision involves the ‘desk-based’ assembly of large amounts of comparative data on the costs (of labour, energy, transportation) and potential revenues (e.g. market size within a certain travel distance) of a long list of potential locations that can be national or international in scope. Data is typically drawn from government statistics but also directly from private sector suppliers (such as energy and utility companies). As this long list moves to a short list of perhaps a handful of locations, these tangibles need to be validated by site visits and ‘fieldwork’. For example, average local labour costs might need to be gauged against the effects of a recent major investment that remains unaccounted for in official statistics or indeed the effects of the prospective investment on that average figure. Additionally, some of the information involved in the location decision is qualitative, non- or only partially codifiable, and non-comparable. ‘While labor supply and wage rates can be measured statistically, labor climate is a highly intangible factor’ (Thompson, 1961: 45) as are the look, feel and fit of a community with the business function being (re)located and the corporate ethos and brand. These might be gauged with reference to the experiences of existing investors regarding



workforce skills, the welcome from, and relationships with, local governments (existing investors are often mobilised as local ambassadors), and the fit of the location with the company or brand. It is these intangibles including ‘non-economic’ factors that entail a more detailed examination of the unique characteristics of individual towns and cities and often tip the decision in favour of a particular location when the tangibles are equivalent (Moriarty, 1980: 144).

Clearly both the tangibles and intangibles of the location decision can vary across what Beugelsdijk and Mudambi (2013) identify as the continuities and discontinuities associated with the location decision. Despite the enormous growth in the availability of information, comparability becomes a key part of assembling tangible data in those markets in which there are significant national and subnational regulatory and policy discontinuities (for example, industry average hourly wage rates might need to be adjusted for variations in add on costs related to the likes of training levies and contributions to social insurance). It is particularly notable that the site selection industry emerged first in the US where there was a large domestic market for corporate (re)location but where the simplicity of the location decision and the tangible data assembled typically did not reflect the sorts of discontinuities in the regulatory environment and the range of intangibles encountered across the EU. The discontinuities play into intangibles such as different industrial relations and business cultures which can add to the costs or opportunities of particular locations.

Understanding the knowledge mobilised by specialist consultants provides an alternative window onto the location decision and the management costs and opportunities associated with it. More particularly it is the fundamentally *geographical* nature of the knowledge mobilized by consultants that reveals how the location decision remains more complicated than is often appreciated and presents limits to the professionalization and

internationalization of this form of expertise. In the next section we set out the details of data collection but suffice for now to indicate that a significant number of the site selectors interviewed considered themselves *de facto* economic geographers. Geography is traditionally a discipline concerned with both the uniqueness of place and the universality of processes or relations across space. As such the discipline falls somewhere between an art and a science (Sack, 1980). The intermediary work of site selectors reflects this *betweenness* of place (Entrikin, 1991). It entails the reconciliation of competing, binary, conceptions and measures of location – the most germane of which we highlight in table 2.

### **Table 2 here**

Despite the embodied nature of much of the knowledge associated with professional services, those professions that are most securely credentialed (such as law and accountancy) have promoted a measure of transnationalization with regard to universally accepted principles and practices (Morgan, 2001). Other less securely credentialed professions (such as in management consulting and executive search) have nevertheless still managed to create markets and internationalize in a self-perpetuating manner (Beaverstock, Faulconbridge and Hall, 2010; McKenna, 2010). It is the explicit focus on location, on place, by site selection consultants that creates frictions to the sorts of transnationalization of knowledge and practice apparent in these other professional services. *The fundamentally geographical nature of the knowledge that is mobilized* – as part tangible or quantifiable, part intangible or qualitative, part science, part art - is one that *has, on balance, constrained the growth and professionalization let alone the internationalization of the industry* when compared to other professional services (cf. Faulconbridge and Muzio, 2011; McKenna, 2010).

## **METHODS**

The empirical material that we employ in this paper is based on a total of 27 interviews conducted in two separate but related pieces of exploratory research which have sought to examine both the economic geography of the site selection industry and in particular the knowledge mobilised by it in Europe and the US. The first research project was conducted during 2010-2012. It involved 13 interviews conducted in person and by telephone with leading site selection companies in Europe and extended to interviews with companies in a set of closely related activities described below. The interviews covered the main site selection companies operating in Europe. Apart from gaining an insight into the organisation of the industry and its role in FDI location decisions, the research sought opinions on the global economic geography of the industry - notably its presence in particular regions of the world.

The second piece of research was conducted in 2012-2014. It followed on from initial suggestions that the US industry was significantly different from that in Europe. This project capitalised on the opportunity presented by the formation of a guild of site selectors in 2010.<sup>3</sup> The research involved 14 interviews conducted with members of this guild and focused specifically on the growth, organisation and role of the industry in the domestic and international direct investment decisions of US corporate clients.

The interviews covered issues salient to understanding the role of site selection consultants. These included: the organisation of the site selection consulting and closely related professional service industries; global and national estimates of the proportion of all FDI projects that consultants were involved with; limits on the growth of the industry; the methods used, skills and experience involved in site selection decisions, and; what specifically site selectors brought to the location decision. In both studies the vast majority of

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<sup>3</sup> See [www.siteselectorsguild.com/](http://www.siteselectorsguild.com/)

interviewees were typically the business owners or senior staff members with years of experience as site selectors or in related professional services or community economic development. In the case of the former piece of research, these issues focused specifically on FDI decisions and a wider range of issues given the more complicated regulatory environment involved. In the case of the second study, informants did not always distinguish between the role they played in domestic and foreign direct investments in what was a larger, simpler and ostensibly *domestic* market for corporate (re)location. Nevertheless, we believe the two related studies offer substantial insight into the role of site selection consultants as intermediaries in the ‘market for capital’.

In what follows we describe the origins and organisation of the site selection industry before concentrating on the roles that consultants play as information brokers and the nature of the knowledge they mobilise.

## **THE ORGANIZATION OF THE SITE SELECTION INDUSTRY**

Site selection consultants are not the most sizeable of, nor do they provide the impetus to, a range of other professional services indirectly involved with location decisions but they are the most centrally concerned with the mobilization of knowledge about location in the location decision itself.

The site selection consulting business is usually considered to have two sides: one is site selection for corporate clients; the second is investment promotion consulting (the organisation and targeting of promotional strategies) and ‘lead generation’ undertaken for organisations seeking to attract inward investment. The latter two activities are often orchestrated by government or quasi-government investment promotion agencies (IPAs) and the fact that some consultants are engaged in both sets of activities is a source of some

concern regarding the independence of the advice of consultants. Most of those consultants we interviewed stressed the importance to company credibility and ethics of ensuring a strict separation between these two sets of activities, nevertheless some consultants do work on both sides of this divide.

Thus, the emergence of the site selection business owes something to a parallel growth in investment promotion by communities.<sup>4</sup> While detailed discussion is beyond the scope of the current paper, the growth of promotional activity fuels the growth of the site selection industry through a ‘revolving door’ of labour mobility between public agencies and consultants.<sup>5</sup>

The boundaries between site selection and other professional services industries are permeable. All interviewees expressed some uncertainty about how to label and bound the site selection business. One interviewee – a tax advisor - saw FDI as an industry in itself whereby flows of FDI were a source of business to numerous companies in different specialist industry sectors.<sup>6</sup> An interviewee more directly concerned with location consulting went on to highlight how ‘it is still a niche market, differently addressed by specialised boutiques and by large corporate global players ... probably each of the big four and real estate advisors.’<sup>7</sup> Another interviewee from a multinational law company described the

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<sup>4</sup> There are significant differences in the organisation of investment promotion. In the US, while states and cities have their own industrial recruitment organisations, utility companies have long been important in a way they are typically not in Europe (Wood, 1993, 2003).

<sup>5</sup> The number of national and subnational IPAs has expanded greatly but there are few accurate estimates of their total number. One estimate suggested there were around 250 national and 160 subnational IPAs (Morrisset and Andrews-Johnson, 2004: 1). In 2013 the World Association of Investment promotion Agencies had 170 fee-paying members from 130 countries ([www.waipa.org](http://www.waipa.org), accessed 26 October 2015).

<sup>6</sup> Interview 1: Blick Rothenberg, 9 March 2012

<sup>7</sup> Interview 2: European Location Advisory Service, Ernst & Young, 21 June 2011

industry in the following terms: ‘We talk about the inward investment community because it crosses so many different industries. ... Commonly we work with accountants but then it is people like payroll companies, recruitment agencies, real estate brokers, relocation companies’.<sup>8</sup> The boundaries of this industry have shifted as different corporate functions have become mobile and as professional service companies have diversified into and out of site selection consulting. As another site consulting interviewee elaborated:

‘There are recruitment agencies that nowadays state in their brochures that they are doing site selection work for their clients. There are engineering companies that have done this for many years. There are real estate brokers ... There are a lot of organisations, lawyers are part of them, that help companies in that process with elements of location assessment. But there are not many that are really indeed specialised to the extent that they focus on it.’<sup>9</sup>

Moreover, as an interviewee from an investment bank noted, the widespread outsourcing of business activities has seen companies in the business process outsourcing (BPO) industries offer location search services.<sup>10</sup> The site selection industry is itself subject to a measure of specialisation with some companies basing their business propositions on, for example, the use of technology, the production of indexes, site certification or the negotiation of incentives.

The companies involved assume a diversity of forms, ranging from one person consultancies to giant accounting and management consulting MNEs offering a full range of

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<sup>8</sup> Interview 3: Taylor Wessing LLP, 14 February 2012

<sup>9</sup> Interview 4: IBM-PLI, 14 November 2011

<sup>10</sup> Interview 5: HSBC, 28 September 2011

professional services to investors. Most specialist site selection consultants sit somewhere between these poles. Thus, for one interviewee from the site selection group of a professional service MNE, a clear segmentation into large professional service MNEs, small to medium sized specialists and one person consultancies was apparent.<sup>11</sup> Some of our interviewees saw a strong continuing role for a specialist site selection business within the professional service MNEs. However, others also suggested that for the large accountancy and management consulting MNEs, their site selection activities are a side-line that periodically is acquired and tolerated for its value as a loss-leading marketing or integrative operation and divested when insufficiently profitable.<sup>12</sup>

There are a variety of different ways – arbitrage, time spent, flat rate fees, piece rate fees (e.g. for leads generated) and bonuses (e.g. on the scale of incentives obtained) - in which revenue is generated from ‘the business of location’. The different ways in which profit is drawn from the location decision attached to FDI flows provide incentives and disincentives for involvement in particular types of FDI projects. The large accountancy and management consulting MNEs are oriented towards the largest MNEs and therefore unlikely to get involved in the smallest FDI ‘transactions’. According to one serial location consulting entrepreneur, developments such as the internet and mobile phone technology are changing the business models and fee structures that have been associated with the site selection industry since the greater availability of information means that profit margins for data gathering and analysis are diminishing.<sup>13</sup>

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<sup>11</sup> Interview 6: Global Location and Facilities Service, Deloitte, 21 June 2011

<sup>12</sup> Interview 7: Buck Consulting International, 16 May 2012

<sup>13</sup> Interview 8: IC Associates, 13 November 2013

While competition for FDI is not new, the intensity of that competition has escalated significantly (Phelps and Raines, 2003; Wells and Wint, 1990). An interviewee from an investment bank surmised:

‘The global economy is so much more competitive now .... perhaps in the 1950s or 1960s there were a handful of countries, now when you come to those big multinationals they have to make decisions about how they allocate resources no longer among a handful of countries but across forty or fifty potentially and at that end of the market that is where this bureaucratic industry has arisen. ... there is discretionary business to be won’.<sup>14</sup>

The growth of the site consulting industry has gone hand in hand with this increasing intensity of competition for investment and it is to an appreciation of the knowledge mobilized around such discretionary business that we now turn.

## **SITE SELECTION CONSULTANTS AS INFORMATION BROKERS**

### **Search costs in the location decision**

The assembly of quantitative information regarding various ‘tangible’ costs and market potentials has been a staple of the site selection industry since it began and is documented in several academic and practice-facing treatments. The collation of such data is important because location costs can vary more *within* a country than *between* countries. Site election consultants therefore play a role in reducing search costs. In its investment promotion toolkit, the Multilateral Investment Guarantee Agency presented the role of site selection and investment promotion consultants as intermediaries in a market in which ‘no investor has access to all the information needed to make a decision, they fill in the gaps by making

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<sup>14</sup> Interview 5 op cit.



assumptions, extrapolating based on known information and relying on the advice and opinions of others (including the media, consultants, and competitors)' (MIGA, 2000: 3). This quotation hints at the cacophony of information sources that may confront an investor and indeed an early account from *the* pioneering company in the site selection industry observed how: 'An amazing paradox exists in the field of industrial development. Manufacturers are eager to receive data and communities are desperately anxious to present it, yet, *parallel as their interests may be*, conflicts and misunderstandings seem to continually arise' (Yaseen, 1955: 157, emphasis in original).

An important element of the location decision as practiced by site selection consultants continues to involve the assembly and comparison of quantitative data despite the greater and faster disclosure of data by governments and the 'information' produced by IPAs. This is because

'There is a lot of information but if you talk about accurate, comparable up-to-date information where you can guarantee it is apple for apple, that information is not available. ... One of the reasons we have work is that there are so many development agencies that give biased information'.<sup>15</sup>

Thus, a role for specialist location consultants has grown as a result of clients being 'swamped with information' as Popp (2000) has described with regard to product sourcing decisions.

The specialist consulting companies handle a relatively small number of client cases a year, with one consultant indicating that a single client site search might involve 2 person years of work. In one historic account, Fantus was said to have produced a stack of reports

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<sup>15</sup> Interview 7 op cit.

standing ‘six or eight feet high’ to a company considering relocation (Adler, 2000: 147). These anecdotes give some indication of the amount of information generated, and hence the scale of the search costs involved in location decisions. The literature on failures in international business is scant to say the least. One major account (Ricks, 2006) devotes just a handful of pages to location as a source of failure. Yet, the potential consequences for business performance of selecting the wrong location can hardly be ignored as one interviewee in the US outlined ‘We can demonstrate - even in the communities that we narrow down to look at - financial modelling differences of 10-25% either on an annual basis or the life of the projects. And if you look at potentially bad locations they can actually be at high risk of complete failure’.<sup>16</sup>

A discrete academic literature on site selection or location decision techniques continues to evolve. However, since the 1980s academic discussion has moved to the margins of the economic geography and business disciplines and into operations research. Some of this literature better reflects the contemporary complexity of the location decision. Site selection practice too continues to evolve in ways that reflect the reality of MNEs and their orchestration of geographically extensive value chains or GPNs. The very term ‘site selection’ implies the locating of a single facility in a single location at a time. It is a term that remains prevalent in the US but even here some now prefer the terms ‘location footprint’ or ‘location optimisation’ which reference the complexity of decisions involving a network of business functions across multiple locations as part of a broader concern with logistics and tax liability.<sup>17</sup>

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<sup>16</sup> Interview 12: McCallum Sweeney Consultants, 2 November 2012

<sup>17</sup> Interviews 13: Jones LaSalle, 15 November 2012; 14 Global Location Strategies, 13 November 2012 and 9 op cit. respectively.

From the perspective of MNE clients, the schism at the heart of the site selection consulting industry and the management of it by consultants has potentially profound implications. The potential conflict of interest that it can represent is one that can be a source of distortion in the location decision, negating any role that site selectors play as bearers of search costs. One interviewee described a situation that consultants seek to avoid given the reputational damage: ‘There was a guy in North Carolina more than ten years ago now ... who was posing as a location consultant and then approached different communities in North Carolina and told them that, for a fee, he would include them in his stable of locations that he would ultimately recommend to his clients - highly, highly unethical’.<sup>18</sup> Consultants often have the information but rarely are motivated to act in this way. Reputation is important to market intermediaries partly because it is extremely difficult for them to own the information they mobilise (Casson, 1997a: 63) and this extends to site selectors.

The ‘intangibles’ of the location decision have long been recognised. Yaseen’s early account described how ‘it is on a local level that concrete information, particularly as to the important intangibles involved, that manufacturers often fail to amass sufficient data and correctly interpret their significance’ (Yaseen, 1955: 126). What Yaseen was referring to here was Fantus’ penchant for investigating local industrial relations as part of what it later came to measure as ‘the business climate’. However, the importance attached to intangibles in the location decision by practitioners has continued to grow and is reflected in the thought that in the present context of globalisation, sustainable competitive advantage does not lie in textbook optimisation against known constraints (Teece, 2007: 1320). Instead ‘while project financing criteria (e.g. discounted cash flow, pay-back periods and the like) and techniques for decision making under uncertainty are well known, there is little recognition of how to

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<sup>18</sup> Interview 16 op cit.

value *intangibles* and take into account features such as cospecialization, irreversibility and opportunity cost' (Teece, 2007: 1329 emphasis added). Teece has gone further to argue that 'The basic question to be answered by a robust theory of the MNE is not simply where to locate in order to minimize production and transaction costs, but where to locate to build or deploy signature processes and obtain market access while guarding intellectual property' (Teece, 2014: 29). Appreciation of the geographical knowledge mobilised by site selection consultants and its market creating and value adding potential provides a further window on to these considerations.

### **The value added of specification, negotiation and enforcement**

An understanding of the intangibles surrounding the FDI location decision is bound up with the accumulated experience and reputation that site selection consultants have on the basis of conducting searches as the primary activity when compared to a typical MNE executive for whom the location decision remains an infrequent one. Here a need to understand the intangibles drives a measure of backward integration of the search role into that of specification since there is a need for site selectors to help in the translation of aspatial investment criteria into corresponding potential locations.

'The industry really developed because there was a black box ... Information at that time was what we really traded on. Then, since the internet, information is available to anybody. So really we are just trading on knowledge on how to do these projects and how to do them without making a mistake. ... The reason they bring a professional in is to draw out what is really important to the success of a particular facility. Really what we do is to help guide them through the process'.<sup>19</sup>

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<sup>19</sup> Interview 17: The RHS Group, 5 November 2012

The details of this guidance in the specification of an individual FDI project were outlined in detail by another interviewee.

‘First of all it is an ability to recognise very quickly what is important for a certain company in terms of a location. And being able to very quickly to prioritise and differentiate between things that a company would like to have and those that are really essential. Another thing that a consultant should do very well is be the objective third party because any location decision always has bias and personal influences and a good location consultant should be able to eliminate any of that bias. The third thing is being able to get to the right information and data and understanding when a certain number is misleading and understanding when you cannot rely on anything that has been published but have to conduct interviews. ... The fourth thing a good consultant should do is immediately see red flags and immediately point out risks.’<sup>20</sup>

Part of the problem here is that the different disciplinary interests that make up MNEs rarely have coincident views when it comes to what is required of a location for a prospective investment. That is: ‘at some point somebody has to build a business case. Most business organisations are dysfunctional ... they have HR and logistics and operations and different business units but they don’t know how to align themselves ... that’s the job of a third party expert site selection consultant’.<sup>21</sup> . The information search role is something central to well-known and established business strategy (Priem, Butler and Li, 2013). However, the entrepreneurial act of discovery lies ‘midway between that of the deliberately produced information in standard search theory, and that of sheer windfall gain generated by pure choice’ (Kirzner, 1997: 72). In assisting the business integration process by helping to specify

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<sup>20</sup> Interview 15 op cit.

<sup>21</sup> Interview 17 op cit.

the business strategy, site selection consultants are part of the entrepreneurial process through which value is created. As Casson (1997a: 68) describes ‘most firms are designed to handle routine forms of coordination rather than to assess unique and imaginative proposals submitted on an intermittent basis’. The infrequency of the location decision arguably presents such unique and imaginative moments or ‘windows of locational opportunity’ (Storper and Walker, 1989). The siting of new facilities or the relocation of existing facilities may be a rather unappreciated aspect of MNEs’ possibilities for ‘sensing’, ‘seizing’ and ‘transforming’ implied in the exercise of dynamic capabilities (Teece, 2007) and in the exploitation or creation of competencies (Cantwell and Mudambi, 2011).the exploitation or creation of competencies (Cantwell and Mudambi, 2011). Sources of knowledge external to the MNE provide vital impetus to the mobilisation of such competences or dynamic capabilities (Phelps and Fuller, 2016). Thus, site selection consultants emerge as one overlooked set of actors contributing to ‘informed deviations from existing technological development paths’ (Bathelt and Cohendet, 2014) especially given the potential for knowledge found in organisational and geographical peripheries to induce change (Phelps and Fuller, 2016).

As Molotch (2004: 163) notes, ‘at the heart of the production apparatus – even a in a world of e-commerce, globalism, and virtual simulations – it’s still location, location, location and all accoutrements of milieu that influence what stuff can be’. While for economic geographers the rise and fall of cities and regions are a testament to the fact that corporate strategy comes together in the place(s), the location decision is rarely appreciated - either by executives or in the business literature - as a significant contributor to, let alone perhaps *the* focusing prism for business strategy.

The part art, part science of site selection consulting has further consequences for the site selection industry since the companies involved rarely display a degree of vertical integration. Site selection typically is paired with one other upstream or downstream activity such as incentives negotiation, corporate strategy, or relocation services. Some of the professional service MNE are able to integrate searches with upstream activities of specification and downstream activities such as negotiation.<sup>22</sup> However, only recently Conway Data (which publishes *Corporate Location* magazine) embarked on a series of acquisitions to create a measure of vertical integration between its media operations and site selection and investment promotion consulting, events management and public relations.

Site selection consultants play a role in negotiation (Decker and Crompton, 1993) often precisely because of their experience of working both for corporations and governments. As one interviewee described:

‘I believe consultants can play a very important role in the negotiation because often companies will ask for things from agencies or governments that they either don’t need or governments are not in a position to provide. ... On the other hand, governments also often don’t understand why companies are asking for certain things and again a consultant can help and translate that.’<sup>23</sup>

Moreover, a number of site selection consultants are specialists in the direct handling of the negotiation of financial and other incentives on offer to clients (Shapiro, 2010) which, in the US, can vary considerably from state to state. As one interviewee noted ‘You really have to be careful with incentives because it’s really complicated and most people and the press have

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<sup>22</sup> Interview 18: Cushman & Wakefield Global Business Consulting, 16 November 2012.

<sup>23</sup> Interview 18 op cit.

a very rudimentary and headline-oriented understanding of incentives. The incentives you see quoted in the paper extend over decades and may or may not be paid’ and they also have to be negotiated against the client’s time frame for the investment.<sup>24</sup> While debate persists about the decisiveness of such incentives in location decisions it is clear that they effectively add value to the corporations involved.

In the case of those site selectors active in the negotiation of incentives there is also a desire to be involved directly in compliance (or enforcement).<sup>25</sup> Otherwise, it might also be said that the industry plays a role in enforcement and monitoring in its promulgation of indexes and benchmarking reports. The difficulties of owning information noted earlier may be one reason for the rise of proprietary indexes. Fantus was instrumental in establishing the concept of the business climate in the US during the 1960s and 1970s. For one company, the main function of such an index was as marketing for other services.<sup>26</sup> However, for others, such indexes are part of the core business and are perceived to exert an effect on corporate clients.<sup>27</sup> Perhaps the most infamous is the ‘doing business’ of the World Bank, the behaviour-enforcing effects of which are apparent in the way in which IPAs attempt to manipulate their rankings (Schueth, 2010). Finally the site selection consulting industry is served by specialist media companies, although their influence was considered to pale in comparison to the perceptions generated by the weight of the media in general.<sup>28</sup>

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<sup>24</sup> Ibid.

<sup>25</sup> Interview 16 op cit.

<sup>26</sup> Interview 3 op cit.

<sup>27</sup> Interview 19: Global Business Policy Council, AT Kearney, 30 March 2011.

<sup>28</sup> Interview 10 op cit.



Collectively, site selection consultants exert an indirect enforcement role in their day-to-day business of advising individual clients, governments and IPAs. Indeed the knowledge of site selectors has become highly sought after within the US across the community of economic development practitioners. As one US-based interviewee described:

‘We are like little bumble bees going from flower to flower. If we find one area that is doing something that really impresses us, usually we will go to another state or another area and say “have you looked at what Ohio is doing in terms of funding their economic development organisation”, or whatever, and that will make the other states or areas sit up and take notice ... so we basically help other people understand what the competitive nature of the business is.’<sup>29</sup>

While this role for site selection consultants may also imply a measure of convergence or coordinated behaviour among organisations involved in investment promotion, for another US-based interviewee there has been little evidence of convergence.<sup>30</sup>

## **PARADOXES OF THE GEOGRAPHICAL KNOWLEDGE MOBILIZED IN THE LOCATION DECISION**

Paradoxically, despite having played a historically central role in promoting the mobility of economic activity, the site selection consulting industry remains weakly professionalized let alone credentialed and internationalized. It is the peculiarly geographical nature of the knowledge mobilized that lies at the heart of several paradoxes. As one interviewee described, it is still the corporate investor making location decisions entirely in-house that

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<sup>29</sup> Interview 17 op cit.

<sup>30</sup> Interview 20: Garner Economics, 8 November 2012.

provided his company's 'biggest competitors'.<sup>31</sup> This seems likely to have been the case historically as the expansion of many MNEs largely preceded the formation of much of the specialist site selection consultant industry, earning them the moniker of 'global scanners' (Vernon, 1979). However, Thomas (2011: 10) argues that the use of location consultants may 'have opened the way for smaller firms to benefit from stronger information asymmetries than they otherwise would have been able to' – a thought confirmed by one of our interviewees.<sup>32</sup>

Nevertheless, the modest use of consultants in the case of site selection contrasts with that elsewhere in the professional services industries. In the case of management consultants, for example, 'executives have accepted the merits of advisors because specialists have proven themselves able to master, manipulate, and extend novel realms of complex knowledge' (McKenna, 2010:11). In this instance government regulation effectively created a new jurisdiction that consultants were able to fill before going on to self-consciously codify their corporate practices as 'professional' new markets and commodify them (McKenna, 2010: 194-195). Of course site selection has not benefited from regulatory actions that would create a new jurisdiction surrounding place – and it is hard to see how this would ever be the case. Beyond this, however, site selection consultants have also struggled to establish a similar reputation for professionalism having only recently formed a Site Selectors Guild. This has much to do with the knowledge that site selection consultants mobilize which is only partly and imperfectly codifiable as we go on to explain.

One important role played by consultants is validating or 'ground-truthing' the tangible quantitative data collected in the initial search process. For example, one interviewee

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<sup>31</sup> Interview 7 op cit.

<sup>32</sup> Interview 9: Newmark Grubb Knight Frank, 5 November 2011.

noted how it was simply not possible to visualise a labour market from behind a desk using quantitative measures and maps and that a *feel* for how a labour market actually worked, including for a particular site, could only be gained on location.<sup>33</sup> If these intangibles can be significant in the US where there are few regulatory discontinuities attached to different locations, they are magnified in the EU with its significant regulatory diversity. Indeed, a persistent lack of appreciation of such discontinuities among US corporate clients has been one reason for the growth of site selection consulting in Europe.

The validation role of the location consultant can be a curious one, as corporate clients desire a local presence in the destination locations but one ‘dirty secret’ of the industry, according to an interviewee, is that site selection consultants – even the professional service MNEs - are rarely able to offer this.<sup>34</sup> To some extent, MNE accountancy and real estate brokerages can provide on the ground presence by virtue of their global network of offices. For these MNEs their site selection operations are multinational by virtue of their ability to leverage the local overseas presence provided by a global office network associated with their main line of business. However, the number of offices in which there is dedicated site selection expertise is very limited. The smaller specialist companies have just one or at most a handful of foreign offices operated directly or as a joint venture with a partner consulting company in a particular market. Some have a multinational presence by virtue of a network of associates or partners. Such a dynamic produces a paradox in the organisation of the site selection consulting industry. As one interviewee observed ‘while the clients

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<sup>33</sup> Interview 11 op cit.

<sup>34</sup> Interview 15: Terrain Consulting, 23 August 2013.

globalise and while the projects get more and more a globalised flavour, the service industry has not<sup>35</sup>

Thus, despite the growth of the industry, the exact proportion of FDI projects facilitated by the industry is unknown. As one interviewee suggested,

‘Quantitatively I think the site selection consulting industry just does not have the mass or the workload to impact on flows in a global way. It is really a small minority of the projects that are assisted by consultants and most of the work is done by the companies themselves.’<sup>36</sup>

By the late 1950s in the US, Thompson (1961: 111) observed how ‘The exact proportion of site cases in which ... consultants participate is not clear but they have become increasingly important ... in recent years’. Consultants were involved in 9 of a sample of 41 corporate relocation cases examined in the US by Decker and Crompton (1993: 76). Across our interviews, practitioners were hesitant to put a figure on the proportion of all FDI flows in which consultants played a role. On the one hand, much depends on where the boundaries of the industry are drawn. As one interviewee described

‘There is a whole raft of people for whom that is not their business per se but companies when thinking about relocating will quite often talk to their lawyers or people they know who will put them in touch with other people. If that’s how you view a consultant then it could be quite high. If it is going about and formally

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<sup>35</sup> Ibid.

<sup>36</sup> Interview 4 op cit.

retaining companies to do particular pieces of work then my guess is that it is pretty damn small.<sup>37</sup>

The same interviewee went on to estimate the figure to be less than 10% of all FDI projects which corresponds with a figure estimated some years earlier (Spee, 2003).

The precise contours of what is a very unevenly developed consulting industry at the global scale can also appear paradoxical. Information economics suggests that the role for market intermediaries is greatest in the least transparent, least developed or ‘emerging market’ destinations for FDI. Yet consultants have very limited presence in many emerging markets. Instead, the industry remains most developed in the US and Europe - where MNEs have accumulated much experience with the location decision, in which information is most available and in which business environments are seen as transparent.

This paradox party recedes from view when recognising that the site selection consulting industry originated in the US and developed later in Europe as these, historically, have been the most important origins and destinations of FDI flows. From its origins with Fantus, site selection consulting businesses by 2012 numbered around 100 in the US.<sup>38</sup> The industry in Europe – for which there is no comparable data - is newer, less developed but more heterogeneous. This heterogeneity doubtless reflects both the regulatory discontinuities (Beugelsdijk and Mudambi, 2013) inherent in the different nations that make up the European market but also the greater development of IPAs and extends into what one interviewee regarded as the greater sophistication of site selection work undertaken in Europe.<sup>39</sup>

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<sup>37</sup> Interview 10: Oxford Intelligence, 21 February 2011

<sup>38</sup> Figures supplied by Development Counsellors International in 2012.

<sup>39</sup> Interview 11: Global Corporate Services, CBRE, 20 September 2013

Elsewhere the minimal role played by consultants reflects diverse conditions. In a rapidly growing market like China it reflects both the non-discretionary nature of much FDI and the dominance of public authorities in the promotion of investment. Across the African continent, the very modest role played by consultants reflects both the lack of the wider supporting business/professional services sector and the resource-seeking nature of much of the FDI there. Global production networks (GPNs) are now stretched far and wide encompassing intra- and inter-firm divisions of labour. Financial, logistics, labour market and professional service intermediaries are now recognized to play a significant part in their orchestration (Coe and Yeung, 2015). Yet, in comparison, location consultants – those most centrally concerned with the myriad location decisions implicated - seemingly play a generally modest and almost non-existent role in some settings. That this should continue to be the case speaks powerfully to the complexity of place and its imperfectly codifiable character.

For specialist site selection consultants, the extensive work in the field entailed in validation and in gauging the intangibles of places is less easily accommodated within accounting, management consulting and real estate MNEs whose business models and whose professionals are, on balance, increasingly oriented to the *application of universal processes* transnationally (Faulconbridge and Muzio, 2011). For the specialist site section consultant, validation can also draw on accumulated experience including knowledge of locations visited in previous site searches. Here one interviewee explained how ‘You have to have an innate curiosity for places ... find the fit. What belongs where? Going into a community and using every one of your senses ... and that’s something you can’t teach straight out of school.’<sup>40</sup> As another interviewee described

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<sup>40</sup> Interview 16: Biggins Lacy Shapiro & Company, 8 November 2012.

‘A lot of what we are doing is hypothesising the real world.’ ... ‘The last part of the process we go through is the validating process with the client which involves taking them on a tour of the short listed cities. It doesn’t matter how good the investment promotion agency is, how compelling the labour costs are ... they may get off and say “sorry this just doesn’t fit our corporate image”. They will expect us to understand why not.’<sup>41</sup>

If the first sentence describes the sort of codification of places associated with the desk-based research of consultants, the last sentence describes the importance of experience built up by site selection consultants through the process of validating the tangibles and gauging the intangibles of locations through extensive fieldwork. Indeed length of specialist experience is one of the key criteria for membership of the aforementioned Site Selectors Guild.

The picture that emerges as a result of the specialist site selectors recourse to a mixture of data, methods and experience is one of the peculiarly geographical nature of the knowledge mobilised. As one interviewee neatly summarised:

‘First of all, most of these corporations only do this once every ten or twenty years. It is a special event that requires some very unique skills. Analytical skills, modelling skills, statistical analysis skills. Skills that are art as well as science; being able to walk into a community and look at a site and say “you gotta be kidding me” or “right town, wrong site guys”. It is very emotional and political.’<sup>42</sup>

Field work and experience are closely intertwined in the site selection process and are mutually reinforcing in a way that arguably shapes a certain economic geographical feel for

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<sup>41</sup> Interview 11 op cit.

<sup>42</sup> Interview, 9 op cit.

places. It is this that provides a window onto the less appreciated complexity of the location decision itself but also the limits to professionalization and internationalization presented by the sorts of knowledge that site selection consultants seek to mobilize.

Moreover, as the same quotation above suggests, the process in which site selection consultants help to fix mobile capital locally is shot through with politics. Different scenarios are quite possible in this regard beyond the straightforward case of strong local political engagement by an MNE investor being driven by its high dependence on the local economy (Phelps and Wood, 2006).<sup>43</sup> Political considerations can enter into the picture at the margin where there is little to choose among short listed sites (Mudambi and Navarra, 2003). Moreover, MNEs' political behaviour in (re)location decisions in one time period can be a store of value to be mobilized within particular places (Boddewyn, 1988) in future decisions (Phelps and Fuller, 2000; 2001).

## **CONCLUSION**

Consideration of the transaction costs involved in FDI has been at the heart of the theory of the MNE (Buckley and Casson, 1976; Dunning, 1979). The FDI location decision is a specific source of such transaction costs. Yet, the difficulties and opportunities involved in the location decision have tended to be rather overlooked by MNE executives, international business (Buckley, Devinney and Louviere, 2007) and economic geography scholars. Here we have studied the site selection industry as a window onto the under-appreciated complexities of MNE location decisions. In answer to our first research question, we used an information economics perspective to highlight the scale of the information costs involved and the value added and markets made by these specialist consultants assisting with the

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<sup>43</sup> See also Safarian (1993) and Dunning and Lundan (2010) on different MNE-host government interactions and (Coe and Hess, 2011) on strategic coupling within GPNs.



search, specification, negotiation and enforcement costs facing MNEs in the FDI location decision. In answer to our second research question, we emphasized the geographical nature of the knowledge mobilised by consultants who are forced to reconcile competing perspectives and knowledges on location or place. Among the professional services, site selection consultants are intermediaries whose work best illustrates the ‘betweenness of place’ (Entrikin, 1991). It is this appreciation of location that has constrained the development of the site selection consulting industry. The betweenness of place revealed in this analysis of the site selection industry also reflects the frictions that persist for MNEs in orchestrating activities across a range of locations in an increasingly integrated international economy. Future research might usefully go further with respect to these two questions.

First, we have largely concentrated in this paper on the value of site selection consultants to MNEs. This is a story of site selection consultants playing a cost reducing but also a value adding and market creating role. However, future research might focus specifically on the positive contributions that the (re)location decision makes to the generation and mobilisation of competences (Cantwell and Mudambi, 2011) or dynamic capabilities (Teece, 2007) and the potential for ‘informed deviations’ from the existing stocks of knowledge and technologies (Bathelt and Cohendet, 2014) held by MNEs and their subsidiaries. Future research might also usefully examine the value that site selection consultants *may* add to host communities notably in terms of their contribution to economic development objectives. Here it seems likely that the market being created is a market for capital (Thomas, 2000, 2011) in which communities themselves may also, to an extent, be bearers of the information costs (risks) associated with the location decision. The term market for capital may even be misleading in that what has been created is actually a market for, or a commodification of, location – a commodification of place and community. The history of

the creation of this market for location remains to be told but it has its greatest resonance in the US, where the creation of this particular market has been a neglected aspect of the arms-length nature of American capitalism

Second, the term market for capital can imply a single market and an undifferentiated structure to the consulting industry that has helped to fashion it. A greater sense of the variety that exists in this market for capital is implied in the discontinuities involved in the location decision (Beugelsdijk and Mudambi, 2013) and the term ‘world market for social order’ (Bornschieer and Trezzini, 2001; Phelps and Wu, 2009) which resonates with the varieties of capitalism (Hall and Soskice, 2001) and business systems literatures (Whitley, 1992). Thus, future research can also explore the globally uneven development of the site selection consulting industry and its contribution to such a differentiated market. While GPN analysis has drawn on these latter bodies of literature to understand the territorial embeddedness of MNEs, it has only recently emphasized the role of intermediaries in the orchestration of internationally integrated sourcing and production (Coe and Yeung, 2015) across such a diverse range of social orders. Research on the market for location will need to go further in a world economy where a greater diversity of FDI origins and destinations is now apparent.

Third, our discussion emphasized the geographical nature of the knowledge mobilised by location consultants. Consideration of the knowledge mobilised in the location decision by MNEs in conjunction with consultants reverberates at the conceptual heart of management, international business and economic geographical scholarship when speaking to the ownership advantages or dynamic capabilities that prompt and sustain the geographically uneven multinationality of business. The international business and management literature has tended to focus on corporate networks as relations that transcend locations but has converged somewhat with economic geographical perspectives with their twin emphasis on

the uniqueness of places and the relations that transcend them; there is a fruitful dialogue to be had here in an analysis of the challenges facing MNEs in connecting, sense-making and integrating activities in an increasingly integrated international economy. Renewed appreciation of the *geographical* nature of the knowledge mobilised in the location decision can form part of the core interests shaping the dialogue between economic geography, management, and international business.

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