

**Location choice of competence-creating subsidiaries:  
Evidence from the MNE linkage across 50 countries<sup>★</sup>**

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Abstract

Does home country “location” of the multinational parent matters when it comes to knowledge and competence creation for its subsidiaries? Utilising a firm-level panel of more than 2,800 multinationals and more than 7,100 of their overseas subsidiaries, covering 50 home and host countries in the period 1997-2007, we found evidence that the knowledge and technological capability of the parent enhances the creation of competencies within its subsidiaries – a finding that is robust to a large set of different specifications and a falsification test based on ‘matched’ parents. In addition, we found that such effect is higher in the case of vertical FDI relative to horizontal FDI. Moreover, for knowledge orientated MNEs, we found that competence creation for subsidiaries is higher when 1) American and developing multinational parents investing in developed countries, 2) EU multinational parents investing in other EU nations and in developing nations, and 3) Japanese multinational parents investing in both developed and developing nations. Overall, our results suggest that multinationals from different regions display different location preferences in terms of knowledge and competencies creation and further research focusing on why such regional differences occur may advance our understanding of the location choice of competence-creating subsidiaries.

**Keywords:** Competence creation; location choice; falsification test; productivity

**JEL Codes:** F20, F23, F02

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★ The authors gratefully acknowledge the financial support from the University of Essex under internal grant DH00760.

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