

Innovative projects between MNE subsidiaries and local partners in China:

Exploring locations and inter-organizational trust

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Abstract

We explore innovative projects carried out by MNE subsidiaries with local partners in China, focusing on the roles played by different components of inter-organizational trust with the local partners as well as features of the business environment in the specific location of the subsidiary. From a sample of 44 managers in MNE subsidiaries that we interviewed in three locations: Beijing, Shanghai and Guangzhou, we identify 33 cases of innovative projects with prominent local partner involvement. Using a qualitative, thematic analysis of the data, we gain new insights that explain innovative outcomes for the subsidiaries. Firstly, we find a tendency towards a sociological component of trust with local partners in Beijing in contrast to higher levels of an economic component of trust in Shanghai and Guangzhou. Secondly, we find that a successful outcome was noted by informants where the sociological component of trust was utilized in Beijing and the economic component of trust in Shanghai and Guangzhou. The findings highlight the interaction between business context and the nature of trust with local partners in determining innovative outcomes in an emerging economy. We discuss implications for managers and policy makers.

Key words: Trust, Innovative projects, MNE subsidiary, China, Location

1. Introduction

External interaction of subsidiaries in local markets is important to the performance of the subsidiary and the wider multinational enterprise (MNE) (Andersson, Forsgren and Holm, 2002). It is also important for innovative projects¹ aimed at change and rejuvenation in the MNE. Foreign subsidiaries interact with actors in the local external environment in the host country, allowing both the subsidiary and the MNE to gain access to the dispersed sources of knowledge required for innovative projects (Andersson, Björkman and Forsgren, 2005; Kuemmerle, 1999; Mudambi and Swift, 2011). Such projects can lead to change in the subsidiary and throughout the MNE (Birkinshaw and Hood, 1998; Cantwell and Mudambi, 2005).

While most studies on subsidiary innovation and interaction with local partners have been conducted in developed economies, scholars have started to examine this in emerging economies – and China in particular (Zhang, Di Benedetto and Hoenig, 2009). While China has reduced its reliance on imported technology and equipment (Guan, Yam, Tang and Lau, 2009), it is seen as a catch-up economy (Li and Kozhikode, 2008) where firms have a narrower and shallower knowledge base compared to those from developed economies (Awate, Larsen and Mudambi, 2012). China is a unique context – somewhat different from other emerging markets - for examining subsidiary innovative projects. Firstly, China is the only one out of the world's top 5 largest economies that is still considered as a catch-up economy. Secondly, China is the only catch-up economy in the top 10 countries ranked by inward FDI (CIA World Factbook, 2016). Thirdly, increasing amounts of FDI have flowed into the country to allow MNEs to access human capital. The Chinese government has formulated policies to encourage inward FDI aimed

¹ An innovative project is a *defined project for developing and/ or applying of new ideas or behaviors to a new product, service, market, operational and administrative structure, process, or system* (Damanpour, Walker, and Avellaneda, 2009); in this study we define innovative outcome as the result, or consequence, of undertaking an innovative project.

at innovative sectors and has established numerous national technology development zones across the country (Zhang, Li and Schoonhoven, 2009).

Despite these interesting features, China has also been described as a volatile business environment (Li and Atuahene-Gima, 2001; Zhang and Li, 2010). A high turnover rate of skilled employees has also been reported – this attributable to intense competition for good quality managers and skills (Leininger, 2007; Newman, Thanacoody and Hui, 2011). At the same time, China has faced lingering intellectual property (IP) and knowledge protection issues (Hu and Jefferson, 2009; Yang and Clarke, 2005).

Trust has emerged as an important construct that can help MNEs understand and manage these types of hazards in China. Inter-organizational trust helps investing MNEs to establish smooth exchange relationships and manage innovative projects that have the potential to spearhead future growth. Indeed, scholars have argued that this is a critical part of collaborative strategy in transition economies (Peng and Heath, 1996; Steensma and Lyles, 2000). Inter-organizational trust allows for knowledge sharing through informal contacts and mutual understanding (Dahl and Pedersen, 2004) and is therefore especially important for innovation in risky situations where outcomes are unpredictable and difficult to govern through contracts (Wang, Yeung and Zhang, 2011). Disclosing proprietary or confidential information to a local partner is a signal that one trusts the other party, and exposes one's vulnerability. Inter-organizational trust, however, is an elusive concept that both managers and scholars have grappled with (Welter and Smallbone, 2006). It has been studied from many different angles, including both sociological and economic perspectives (Seppänen, Blomqvist and Sundqvist, 2007; Zaheer and Venkatraman, 1995).

While much of the empirical fieldwork relevant to trust in exchange relationships has been conducted in developed economy settings (e.g., Garcia, Sanzo and Trespalacios, 2008;

Sako and Helper, 1998), there is a growing body of MNE research that has begun to look at trust in subsidiaries in China (e.g., Lai, Singh, Alshwer and Shaffer, 2014). However, much of this has not taken an external perspective. Further, scholars have called for more research on the determinants of innovation performance in China (Guan et al., 2009), including the role that trust plays within the *context* in which relationships occur (Wang et al., 2011). This context consists of both the social setting in which personal relationships form and the institutional setting that enforces legal regulations (Welter and Smallbone, 2006). In essence, context refers to the business environment in which the organization interacts with other actors and is defined by features such as whether it is considered a knowledge-intensive economy. While scholars in trust research have argued that context matters when exploring the consequences of trust (e.g., Welter and Smallbone, 2006; Wicks and Berman, 2004), to our knowledge there is no research that looks at this in terms of MNE subsidiaries working on innovative projects with local partners in *different* locations within China. Exploring MNE innovative projects across diverse contexts within China potentially can enhance our understanding of the consequences of MNE strategy in catch-up countries that are only recently opening up for investment.

Our study examines this gap both theoretically and empirically. We use theory on inter-organizational trust (Arrow, 1974; McAllister, 1995; Seppänen et al., 2007; Zaheer and Venkatraman, 1995) as a starting point, which suggests a direct relationship between trust and innovative outcomes, and highlights the potential for the different components of trust to play a role in explaining innovative performance. We augment this with insights from the literature on industrial clusters and economic agglomeration (Jacobs, 1969; Porter, 1990; Romer, 1986), which highlights that contextual differences across sub-national locations in a country like China may influence how trust determines outcomes of projects with local partners. Our central research question is stated as: *how does the context for trust in inter-organizational relationships*

between an MNE subsidiary and local partners in China affect the relationship between trust and outcomes of innovative projects in the subsidiary? Our empirical fieldwork is explorative and uses a qualitative, thematic coding approach. We conducted in-depth interviews with managers in 44 foreign MNE subsidiaries located in three tier-1 cities (Beijing, Shanghai and Guangzhou) and identified a sample of 33 cases of innovative projects across these locations.

The analysis shows how MNE innovative projects in China are influenced by an interaction between (1) location type (knowledge-intensive tertiary environment vs. primary/secondary industry), and (2) the most prominent component of trust (i.e., sociological vs. economic) used between the subsidiary and the local partners. The sociological component of trust emphasizes honesty, confidence, benevolence, and reliability - Zaheer and Venkatraman (1995) referred to this as “noneconomic trust” - while the economic component of trust emphasizes credibility, responsibility, predictability. We find a tendency towards the sociological component of trust with local partners in innovative projects in Beijing in contrast to higher levels of the economic component of trust in Shanghai and Guangzhou. Furthermore, a successful outcome was noted by informants where the sociological component of trust was used in Beijing and the economic component was used in Shanghai and Guangzhou.

Our study contributes to the literature on MNE subsidiary innovation in China by providing important qualitative insight into how the context in which inter-organizational trust occurs influences the relationship between different components of trust and outcomes of innovative projects involving the subsidiary and local actors. We find support for those who argue that context matters when exploring the consequences of trust in organizational dynamics (e.g., Welter and Smallbone, 2006; Wicks and Berman, 2004), this being related to the industrial and institutional nature of locations in the emerging economy where business transactions occur. We contribute to the MNE literature by providing insight into how relationships with external

actors in emerging economies contribute to the innovative performance and competitiveness of subsidiaries and MNEs located in these types of countries.

2. Literature review

Scholars have shown that while MNE subsidiaries will receive an initial mandate from their headquarters when they are established abroad, this mandate may change over time as the subsidiary upgrades its capabilities and underlying activities (Birkinshaw and Hood, 1998; Cantwell and Mudambi, 2005). One way the subsidiary can seek to upgrade its capabilities while also acting in its strategic role for the corporation, is through its embedment with local actors in the host country. Despite the need for a subsidiary to retain a meaningful connection to headquarters and other MNE units (i.e., its ‘internal’ embedment), it is inevitable that employees within subsidiaries will develop relationships with local actors and some of these will result in the initiation of projects in cooperation with local actors².

As a consequence of interaction through project work with local actors, the subsidiary gains access to local knowledge. Expatriates may be assigned to subsidiaries to act as agents of learning for this very purpose (enabling the MNE to acquire new knowledge from the host country), not just as agents of knowledge transfer (applying competencies from the home country) (Tsang, 1999). According to Cantwell and Santangelo (1999), this role of the subsidiary allows the MNE to “tap local tacit advantages” (Cantwell and Santangelo, 1999: 102), ultimately allowing for “corporate technological renewal” (Cantwell and Santangelo, 1999: 118).

Increasingly, MNEs have gained such advantages and corporate renewal as a consequence of their investment in emerging economies such as China. However, such countries

² Scholars have noted how subsidiaries subsequently will need to balance the ‘internal’ embedment with within the MNE, with ‘external’ embedment in the host country (Meyer, Mudambi and Narula, 2011.).

present challenges for MNEs because of the risks of leaking information about proprietary technology to local partners that are themselves embedded in a volatile institutional environment. As noted above, trust is important for MNE subsidiaries in this situation (Peng and Heath, 1996; Steensma and Lyles, 2000), and particularly where activities are difficult to govern through contracts (Wang et al., 2011).

2.1 Inter-organizational trust

There have been various definitions of trust in the academic literature (Seppänen et al., 2007). Nyhan and Marlowe (1997) defined trust in terms of an expectation that the behavior of another person or a group would be altruistic and beneficial. Trust has also been defined in terms of willingness of one party to be vulnerable to the actions of another (Mayer, Davis and Schoorman, 1995). Trust emerges through social interactions between exchange partners (Granovetter, 1985; Powell, 1990; Uzzi, 1997), leading to a shared understanding between managers from different firms (Dyer and Nobeoka, 2000) and offering a social resource that facilitates cooperation and coordinated social interactions (McAllister, 1995). Trust signifies a commitment by partners not to take advantage of the other party's weaknesses (Steensma and Lyles, 2000), indicating a willingness to engage in mutual problem-solving (Uzzi, 1997).

Inter-organizational trust has been studied as a multi-dimensional concept (Seppänen et al., 2007), consisting of different components (Zaheer and Venkatraman, 1995; Jiang, Chua, Kotabe and Murray, 2011). Sako and Helper's (1998: 388) definition of trust combined economic, sociological and psychological theories, and reflected the socio-psychological expectation of reciprocity on the one hand, and the economic approach to trust as prediction and opportunism on the other. Young-Ybarra and Wiersema (1999: 443) also combined transaction cost economics and social exchange theory and discussed three dimensions of trust:

dependability, predictability and faith. Seppänen et al. (2007) reviewed the empirical research on inter-organizational trust, and summarized the different types of trust in terms of two broad components: (1) sociological/psychological approaches and (2) economic approaches, with the former emphasizing honesty, confidence, benevolence, and reliability and the latter emphasizing credibility, responsibility and predictability.

2.2 Trust research in emerging economies

There has been a growing interest in the literature on trust in the context of emerging economies (Dyer and Chu, 2000; Jiang et al., 2011; Park and Luo, 2001). Choi, Lee and Kim (1999) noted that trust is common in emerging economies because industries may be at a formative stage or their boundaries are blurred. In general, market failures and uncertainty in emerging economies mean that firms will seek relationship- and network-based business models which emphasize trust as a mechanism to underpin cooperative inter-organizational relationships as opposed to contracts (Peng and Heath, 1996). While research has shown that trusting relationships between business executives and overseas partners encourage information exchange and organizational effectiveness (Dyer and Chu, 2000; De Wever, Martens and Vandembemt, 2005; Chua, Ingram and Morris, 2008), cultural ethnicity of the partners will play a role in shaping which type of trust is used (Jiang et al., 2011).

Given that trust helps alleviate inter-organizational coordination problems (Gulati and Sytch, 2007), it is a potent mechanism by which firms operating in China can achieve their goals. Wang and Tjosvold (2006) suggested that trust is useful because it underpins integrative interaction and learning in China. Hitt, Ahlstrom, Dacin, Levitas and Svobodina (2004) noted how firms in China seek partners with whom they can form long-term trusting relations.

Research has also found that trust is an important part of building *guanxi* with partners in China (Luo, 2000; Xin and Pearce, 1996). Environmental turbulence in China has produced a high degree of uncertainty (Nee, 1992), creating a need for firms in China to develop *guanxi* to bridge gaps in information and resource flows and alter network structures (Boisot and Child, 1988; Burt, 1992; Peng and Heath, 1996). Indeed, the personal connections linked to *guanxi* can have a more powerful effect than formal institutions (Luo, 2000). Firms in China use *guanxi* within inter-organizational networks to overcome the uncertainty and distrust that plague economic transactions (Galaskiewicz and Wasserman, 1989), to get greater access to human and financial resources, knowledge, and management expertise (Oliver, 1990), to facilitate economic exchanges and to overcome administrative interventions by the Chinese government (Park and Luo, 2001).

2.3 Link between trust and innovation

Researchers from a variety of business disciplines identify trust as a critical variable that influences organizational outcomes, including innovative outcomes (e.g., Covey, 2006; Hurley, 2012; Kramer, 2009). Clegg, Unsworth, Epitropaki and Parker (2002) for instance, found that trust is associated with the creation of ideas. Ruppel and Harrington (2000) found trust to positively influence employees' willingness to pursue innovation. Dovey (2009) argues that trust between partners is essential for the collaborative learning processes that underpin innovation. Nooteboom (2013) points out two reasons for a relationship between trust and innovation: the high degree of uncertainty, and the need for collaboration (Nooteboom, 2013: 107). In general terms, this line of literature suggests that high levels of trust will have a positive impact on the effectiveness of innovation (Ellonen, Blomqvist and Puumalainen, 2008).

There are various underlying mechanisms here. Firstly, trust is a mechanism to cope with uncertainty, reducing system complexity (Arrow, 1974) and lowering transaction costs (Bidault and Jarillo, 1997). Secondly, in a trusting relationship, there will be less monitoring by managers and greater employee enthusiasm for innovation (Ruppel and Harrington, 2000). Thirdly, trusting relations with partners enables knowledge sharing and the acquisition of tacit skills, essential for innovation (Hitt et al., 2004; MacCurtain, Flood, Ramamoorthy, West and Dawson, 2009). Fourthly, trust promotes cross-functional integration between different organizational units (Garcia et al., 2008).

Important for our analysis is the importance of trust for innovation in risky situations – such as those in emerging economies - where outcomes are unpredictable and difficult to govern through contracts (Wang et al., 2011). Emerging economies have been considered as ‘catch-up’, with domestic firms starting from a position of ‘technological backwardness’ (Li and Kozhikode, 2008). There is high uncertainty and risk associated with innovative exploration (Wadhwa and Kotha, 2006) in this context. As a result, firms often seek explorative partnerships with other firms to provide access to new knowledge and resources (Granovetter, 1973). Nevertheless, MNEs from developed economies will have concerns about transferring proprietary assets to such locations. Worryingly, innovation with partners can be associated with opportunistic behavior (Dittrich and Duysters, 2007), and this opportunism will be harder to predict and monitor in emerging economies. MNEs will be reticent about locating proprietary assets to locations where concerns about IP loss and infringement are significant (Li and Kozhikode, 2008). In addition, capabilities required for cutting edge exploration with partners may not be present given the ‘catch-up’ nature of the economy (Li and Kozhikode, 2008).

2.4 Context: sub-national location

Scholars in trust research have increasingly argued that context needs to be considered when exploring the consequences of trust in organizational dynamics (e.g., Welter and Smallbone, 2006; Wicks and Berman, 2004). Unfortunately, much of the prior literature on trust in international business has been on determinants and consequences of trust at a country level (Möllering, 2002; Sako and Helper, 1998). A country like China, however, is itself a highly diverse sovereign in terms of economic and institutional indicators. Economic development has occurred unevenly across the country and even within regions (Fan, 1995).

Therefore an important theoretical anchor for exploring our research question relates to physical location within the emerging economy. Physical location has taken centre-stage in the fields of economic geography and international business as a principal factor driving firm strategy and performance (Buckley and Ghauri, 2004; Dunning, 1981). Industrial clusters form through a process of economic agglomeration and provide a concentration of infrastructure that acts as an inducement for firms to invest. Benefits to firms include knowledge gained through dense linkages among co-located entities (Harrison, Kelley and Gant, 1996; Porter, 1998), flexible access to specialized labor markets (Krugman and Venables, 1995), and opportunities to develop relationships that promote learning and innovation through spillovers (Jacobs, 1969; Porter, 1990; Romer, 1986). Communication between people is more extensive in such urban agglomerations (Glaeser, Saiz, Burtless and Strange, 2004; Jacobs, 1969) enabling knowledge about the nature of local competition to be shared (e.g., Porter, 2000; Porter and Stern, 2001; Saxenian, 1994).

Beaudry and Schiffauerova (2009) examined the causes of geographic agglomeration, focusing on the question of whether the so-called Marshall-Arrow-Romer (MAR) or Jacobs externalities provide a more accurate explanation. On the one hand, the works of Marshall

(1890), Arrow (1962) and Romer (1986) all support a logic of specialization: geographic agglomeration within one industry is beneficial for innovation because “proximity favours the intra-industry transmission of knowledge, reduces transport costs of inputs and outputs, and allows firms to benefit from a more efficient labour market” (Beaudry and Schiffauerova, 2009: 318). In this view, concentration of industry, along with size of industry, is supportive of innovation in a given location. On the other hand, Jacob’s (1969) viewed innovation as stemming from knowledge outside of the firm’s industry. In this view, diversity within the location matters; a mixture of industries within a city will promote innovation.

Common to these two viewpoints is that relationships between co-located actors can promote learning and innovation through spillovers. The viewpoints offer differing explanations as to the mechanisms behind this spillover effect, notably industry specialization externalities (i.e., industry concentration being good for spillovers, intra-industry) as discussed by Marshall (1890) versus diversity logic (i.e., diverse industrial profiles embedded in a common science base being good for spillovers) of Jacobs (1969) (Beaudry and Schiffauerova 2009). Nevertheless, scholars have also pointed out that the flow of knowledge for innovation is geographically localized, and this facilitates the growth of technologically specialized regions (Jaffe, Trajtenberg and Henderson, 1993). While some relationships within economic agglomerations may be formal, such as alliances and supply relationships (Von Hippel, 1988), many are facilitated by ongoing informal personal relationships and interactions.

2.5 Summary and research gap

This literature review highlights the rather independent nature of research streams on organizational level trust on the one hand and contextual aspects of sub-national locations where companies invest on the other. The literature does provide insight into the relationship between

trust and innovation. There is also a growing literature on trust in emerging economies. In terms of context and our focus on sub-national locations in an emerging economy where MNEs invest, the literature on economic agglomeration and knowledge spill-overs sheds light on how innovation may be achieved in a given location. However, there are two main gaps in the literature: (1) lack of insight into how different components of trust play out in determining innovation with partners, (2) lack of answers to how this happens for MNEs across different locations in China.

3. Methodology

3.1 Research design

We employed a qualitative, thematic analysis method (Glaser and Strauss, 1967; Strauss and Corbin, 1994), starting with an initial theoretical interpretation of the problem in order to guide our first round of interviews. This theoretical interpretation was based on the potential for different types of trust to exist, but also on the potential for both the location of the subsidiary and the nature of the innovation projects performed by the subsidiary to impact how trust with local firms could determine outcomes. We contacted MNE subsidiary managers in three locations in China: Beijing, Shanghai, Guangzhou. These were chosen because: (1) they were the top three Chinese cities for MNEs to locate their subsidiaries, receiving FDI from 92 % of the 137 MNEs in the Fortune 500 that established subsidiaries in mainland China in 2010; (2) they were in different regions: Northern (Beijing), Eastern / Yangtze river delta economic development zone (Shanghai) and Southern / the pearl river delta economic zone (Guangzhou) China, and (3) there were significant differences between them in terms of the environment for innovation. On this last point, we note that Beijing had a greater science base and greater competition in tertiary sectors than Shanghai and Guangzhou. This is supportive of Jacobs

externalities in this location (Jacobs, 1969). As shown in Table 1, Beijing had the greatest tertiary sector in terms of absolute size and percentage of overall location GDP. It also had the highest absolute amount of GDP in terms of scientific research. Table 2 shows while Guangzhou had the greatest inward FDI, Beijing had the highest number of federally-controlled universities. In addition, Beijing appeared to have greater diversity within its tertiary sector, also supportive of the possibility that Beijing is linked to Jacobs externalities and Shanghai and Guangzhou with MAR / specialization externalities (Beaudry and Schiffauerova, 2009).

Insert Tables 1 and 2 about here

Table 2 shows additional differences between the locations that are pertinent to innovative projects. Beijing had the strongest service sector and the largest in scientific and technical economy. In all of the indicators shown for these three locations, Shanghai occupied a middle position.

3.2 Data collection and analysis

Data collection was performed through interviews in two stages. We also analyzed publically available information about the subsidiaries across both stages. In the first stage, we gained initial in-depth insight by exploring the phenomena in 4 subsidiaries across three locations in China. We achieved depth in our data by conducting 26 exploratory interviews with managers working in these 4 MNE subsidiaries in the three locations. These interviews were conducted over a 6 month period. The main purpose in this round of interviews was to understand the different environments for trust in different locations, and explore the relationship between inter-

organizational trust and innovative projects in the subsidiaries. This also allowed us to produce a detailed interview protocol to be used in the second stage.

The second stage was a broader data collection involving additional interviews with managers from 18 different MNE subsidiaries over a subsequent 7 month period. The sampling approach in both stages was purposive and personal networks and snowball sampling (Noy, 2008) was used to identify interviewees on voluntary basis. This allowed us to select participants from a range of different industries and sectors: industrial manufacturing, microelectronics assembly, the automotive industry, the electrical industry, information technology and finance, and with different roles, including marketing and business development managers, project managers, public and government relations managers. The home countries of the MNEs were also varied and included Canada, France, The Netherlands, Japan, South Korea, United Kingdom, and the U.S.

Overall, we achieved heterogeneity in terms of size and age, home country, and industry of the MNE subsidiaries in our sample. By maximizing variation we obtained a rich view of the elements that influence the role of inter-organizational trust in innovative projects. Interviews lasted between 60 to 90 minutes, and were all recorded and transcribed. The interviews were conducted in Chinese, considering the managers could better express their thoughts with their mother tongue, although most were able to speak English.

Table 3 shows the case profiles in terms of location and primary subsidiary function(s).

Insert Table 3 about here

Through the interviews we identified cases of innovative projects that had taken place in the subsidiaries over the previous 3 years. Following Damanpour, Walker, and Avellaneda

(2009), the criteria we used to select cases were as follows: *defined projects for developing and/or applying of new ideas or behaviors to a new product, service, market, operational and administrative structures, processes, or systems that had started within the last 3 years*. In total, 33 cases of innovative activity were identified from the interviews.

We performed our data analysis in both inductive and abductive steps (Dubois and Gadde, 2002; Strauss and Corbin, 1994). Combining inductive and abductive approaches for comparative case studies such as this has been referred to as ‘systematic combining’ (Dubois & Gadde, 2002). According to Dubois and Gadde (2002): “In studies relying on abduction, the original framework is successively modified, partly as a result of unanticipated empirical findings, but also of theoretical insights gained during the process.” (Dubois and Gadde, 2002: 559). While the inductive approach helps researchers to infer a reasonable conclusion given premises which “bear a favourable evidential relation to the conclusion” (Swinburne, 1974: 3), abduction leads researchers to refer an appropriate premise such that the conclusion is a valid consequence of the given premise. In other words, abduction is characterised as inference to the best explanation (Harman, 1965).

In this research, we undertook a process of open coding in which the interview transcripts and publically available information on the subsidiaries were examined and annotated to identify emergent themes related to innovation performance in the subsidiaries. Following this first-round of open coding, the number of themes identified was reduced by combining similar themes and using more abstract categories (Glaser & Strauss, 1967). This involves grouping similar open codes together to form analytic categories. We grouped parameters describing inter-organizational trust between subsidiaries and their local partners in the three different locations. For inter-organizational trust in Beijing, we uncovered themes such as “truth”, “honesty”, “goodwill”, “faith”, “integrity”, “benevolence”, “affect-based” and “cognition-based”. For inter-

organizational trust in Shanghai and Guangzhou, we identified themes including “fairness”, “predictability”, “credibility”, “responsibility” and “competence-based”. We identified second-order explanatory themes for subsidiary innovative projects including nature of innovation, different types of inter-organizational trust across the locations, and outcomes.

In the third step, we followed Ketokivi and Mantere (2010) and Suddaby (2006), and iteratively matched all of the identified themes against our theoretical base (types of inter-organizational trust, location differences and nature of innovation activity) through a process of abduction. In this step, empirical data and theoretical framework evolve simultaneously (Dubois and Gadde, 2002). Comparison between the emerging themes from the case data and theoretical constructs allowed us to introduce additional third order themes. For instance, we identified “sociological trust” and “economic trust” by contrasting and analysing second order themes associated with inter-organizational trust. We also conducted an additional robustness check to discern between themes of “sociological trust” and “economic trust” in situations where second order themes appeared to overlap both “sociological trust” and “economic trust”. Here we used contextual information to get further explanations and clarifications, important as managers in our sample came from Chinese high-context culture (Hall, 1976). In a few cases where we lacked enough information to code properly, this category remained ambiguous and we dropped these cases from the analysis.

Table 4 shows a summary of this process. Table 5 shows the coding for the inter-organizational trust theme alongside relevant literature and an illustrative quote from the interview data.

Insert Tables 4 and 5 about here

4. Results

Table 6 shows the coding for each of the 33 innovation cases. Table 7 summarizes the distribution on variables of interest. There are three main findings. Firstly, we found that perceptions of inter-organizational trust varied across locations within China. How subsidiary managers perceived inter-organizational trust differed across the types of locations, with a higher tendency for the sociological component of trust in Beijing, and a higher tendency for the economic component of trust in Shanghai and Guangzhou. Secondly, we found an interaction between inter-organizational trust and location type in determining perceived innovative outcomes in the subsidiary. We uncovered a number of causal mechanisms for this and report the main findings below.

Insert Tables 6 and 7 about here

4.1 Inter-organizational trust and location differences

Most of the informants from Beijing described trust from a sociological perspective, regarding trust as a long-term and mutually beneficial relationship taking tremendous effort to build. Once established, this facilitated future collaborations between subsidiaries and local partners. As one interviewee in Beijing elaborated:

“It is a two-way and long-term relationship, and both parties behave with goodwill and would not take advantages of the other” (Business Development Manager, Case 6).

Themes identified from interviews in Beijing included “faith”, “benevolence”, “goodwill”, “dependability”, “integrity”, “affect-based” and “cognition-based”. We interpret this as sociological trust as it relates to mutual beneficial business relationships which could last for years (Seppänen et al., 2007), even decades, and often going beyond any individual collaborative project per se. Respondents spoke of the formation of dense and stable relationships, acquiring

social knowledge among partners over the long-term. Such long-term interactions allow subsidiaries to screen for “honest” partners.

In contrast to Beijing, we found managers in Shanghai and Guangzhou had a greater tendency to describe inter-organizational trust from an economic perspective, regarding trust as a necessary component of short-term relationships based on projects that were results-oriented (Seppänen et al., 2007). Themes generated from the descriptions of inter-organizational trust included “credibility”, “responsibility”, “predictability”, “judgement” and “competence-based” trust. From this perspective, inter-organizational trust was described as closely connected to the outcome of collaboration on innovative projects, emphasizing what each party would get out of the collaboration, rather than the relationship itself. As one of the interviewees in Shanghai described:

“We benefited from the relationship with our Chinese suppliers, as they....showed us they are competent, reliable, responsible, which makes our collaboration more predictable and on a fair basis” (Business Development Manager, Case 18).

We note that informants were more likely to perceive inter-organizational trust from an economic perspective at locations where primary and secondary industries dominated the local economy, i.e., Shanghai and Guangzhou, while a sociological perspective was emphasized where knowledge and technology intensive industries dominate local economy, i.e., Beijing. Consequently, subsidiaries that emphasized “relationship” in building trust with local partners were more likely to achieve a satisfactory result for their innovations in Beijing: 8 out of the 9 cases in Beijing adopting a sociological perspective felt positive about the collaborative effort; while none of the Beijing subsidiaries felt satisfied about the progress of projects when they adopted an economic perspective towards trust. By contrast, subsidiaries in Shanghai that were inclined to emphasize the economic component of trust were more likely to achieve satisfactory

results (7 out of 8 cases), and less satisfied with a sociological approach (2 out of 2 cases). In Guangzhou, the economic perspective of inter-organizational trust also helped subsidiaries to achieve more satisfactory results (5 out of 5 cases); while a sociological perspective was associated with dissatisfaction (3 out of 3 cases) (see Table 7).

4.2 Reasons for the impact of inter-organizational trust by location

4.2.1 IPR and regulative environment

Interviewees expressed concern about the intellectual property rights (IPR) issue, bringing uncertainty to innovation projects. This relates to normative and regulative institutions which are part of the context in which trust is developed. Informants were aware of the differences between the three locations in the current study in terms of legislative environment and IPR. Guangzhou had been accredited as one of the first 23 National IPR Demonstration Cities by the State Intellectual Property Office (SIPO); the city had passed all of the evaluations and review criteria including government support, IPR enforcement, IPR protection, IPR environment, innovative procedures and performance. Meanwhile, Beijing and Shanghai were at the development stage of IPR demonstration cities when the interviews were conducted. According to our data (Tables 6 and 7), the sociological component of trust played a crucial role in Beijing, and the economic component of trust in Shanghai and Guangzhou. Respondents in subsidiaries in Beijing expressed a preference for long-term relationships with their local partners where the institutional environment for IPR was perceived to be developing relatively slowly compared to that of Guangzhou. However, Shanghai's institutional environment for IPR was not as advanced as Guangzhou. In this respect we see a clear contrast between Beijing and Guangzhou in terms of the component of inter-organizational trust that is preferred. The result for Shanghai remained less clear because we might have expected that, with higher levels of the economic component of

trust in our sample in Shanghai, the IPR regime would be stronger. Nevertheless, this finding provides some support for previous research indicating that the weaker the institutional environment, the more useful would be trust through relational contracting (Wang et al., 2011). Given that environmental uncertainty predisposes agents to behave opportunistically (Walker and Weber, 1984), trust facilitates information sharing between partners and is helpful for effective decision making in such circumstances. This can explain the differences we see between Beijing and Guangzhou.

4.2.2 Industry differences and professional associations

We found perceptions of trust to be associated with the industrial make-up of the local economies, namely the extent to which the economy is characterized as a primary, secondary or tertiary economy. Where the local economy is characterized as knowledge and technology-intensive, sociological trust was perceived as highly crucial in innovative collaborations. The local economy of Beijing is dominated by knowledge- and technology-intensive industry and scientific research and technology service takes a larger portion in its economy (Table 1). One of the interviewees discussed the importance of the sociological component of trust in this location:

“Our company has been working with a local bank to develop a new online payment system which is new to mainland China. Developing this new system implies high risk. It takes about 3 years to develop and test this new system. The long-term trusting relationships between the company and our partner helped in this situation. It gives us more confidence to test this new idea” (Product Manager, Case 10).

Another factor related to industry makeup was professional association. One informant in Beijing described the role of the Chinese American Petroleum Association (CAPA), a non-profit

and non-political Chinese professional organization in the petroleum industry, in the following terms:

“We established relationships with our Chinese partners through Chinese American Petroleum Association. This helped us to trust our local partners, as we understood that our partners were well connected with the association and were quite active in events hosted by the association for several decades” (Business Development Manager, Case 6).

Thus, professional and industry associations connect MNE subsidiaries with local firms in the industry, facilitating communication and collaboration. On the other hand, those professional and industry associations can act as an extra safeguard against opportunism and misconduct in specific industries, as many industry associations set up industry standards and codes of conduct. All of the professional and industry associations are required to register with PRC government and are governed by centralized bureaus in China. As a consequence, most head offices of industry associations are based in Beijing, providing better access for subsidiaries located in Beijing than other locations. We found that the role of professional and industry associations in developing inter-organizational trust to be stronger in Beijing than Shanghai and Guangzhou. This finding is consistent with Smitka’s (1991) study, which argued that “governance by trust” is more prevalent in the Japanese than in the U.S. automobile industry due to, among other things, the existence of suppliers' associations (kyoryokukai) in Japan and their absence in the US.

4.2.3 Policy risk and uncertainty

Another main difference associated with locations is the different degree of policy risks across three locations. Interviewees stated that Beijing is a comparatively fast changing institutional environment, which brings tremendous opportunities as well as challenges. As the location of

Chinese central government, Beijing is often the city to try out and implement new policies in advance of other cities. MNE subsidiaries located in Beijing have ready access to information about new policy, compared with subsidiaries located in other cities. This ready access to new policy information can put the subsidiary in an advantageous position in terms of decision making related to investment in innovation projects. As one interviewee noted:

“We love the fact that we are located in the capital city of China. We realized that we are always among the first ones to benefit from new policies both from municipal and central government level. Being aware of the latest policy change and possible future trends helps us to make better decisions and predict the future of our collaborative projects in near future. We are in the petroleum industry....an industry strongly reliant on central government support in China. The Beijing location is definitely a good choice for us” (Business Development Manager, Case 6).

On the one hand, locating in Beijing provides MNE subsidiaries easy access to new policy and policy trends at an early stage, assisting subsidiaries in their innovative collaborations with local partners. On the other hand, access to new information and policy at a very early stage can also position those subsidiaries in a more risky situation. As it requires local knowledge and cultural understanding to interpret the meaning of new policy information and formulate any response, early access to new policies can cause misinterpretation and miscommunication in an ambiguous and uncertain situation. One interviewee told us:

“Our manager heard from a local source that the government will introduce a new regulation which encourages the sort of product we are working on now. We thought it came from a very reliable source and we should really take advantages of it. However, the new policy came out a year later than we expected, which brought us some negative influence rather than positive results” (Product Manager, Case 2).

This suggests the uncertainty and ambiguity of policy signals in the local context requires a higher degree of sociological trust between partners which is long-term and mutually beneficial. Subsidiaries are in a better position to take advantage of early access to new policy information, and to avoid the risks associated with uncertainty and ambiguity when the relationships they developed were characterized by the sociological component of trust.

5. Discussion and conclusion

Our study explores how trust in inter-organizational relationships between MNE subsidiaries and their local partners in China varies across different locations. We contribute to the literature on innovative dynamics in MNE subsidiaries (e.g., Birkinshaw and Hood, 1998; Cantwell and Mudambi, 2005; Ecker, van Triest and Williams, 2013; Peng and Heath, 1996) as well as to the literature on the relationship between trust and innovation (e.g., Clegg et al., 2002; Dovey, 2009; Ellonen et al., 2008; Nooteboom, 2013) by showing how different components of inter-organizational trust interact with location characteristics in determining outcomes in an emerging economy. Given different developmental levels across locations in an emerging economy (Fan, 1995), we see how components of trust with local partners will matter as the foreign MNE pursues innovative projects. Our study provides qualitative insight into the mechanisms underlying this interaction, bringing attention to how external social exchanges at a sub-national level contribute to subsidiary innovative projects and outcomes.

The finding that subsidiaries perceive inter-organizational trust differently across locations in China is particularly interesting and may lead to new avenues for research. These differences in perception are attributed to differences in regulative institutional environments, differences in terms of industrial make-up and intermediaries such as professional associations, as well as the subsidiary's need to understand policy risk. Indeed, it is interesting to note that the

presence and nature of professional associations and the role of proximity to areas where governments pilot new economic policy influence how patterns of trust will benefit the subsidiary's efforts to innovate.

Our study advances theory by showing how the multi-dimensional nature of inter-organizational trust (Sako and Helper, 1998; Seppänen et al., 2007; Young-Ybarra and Wiersema, 1999; Zaheer and Venkatraman, 1995) - which includes both economic and sociological / psychological logics - acts together with the nature of specific locations (Jacobs, 1969; Porter, 1990; Romer, 1986) in determining consequences of international business activities that are aimed at renewal and competitiveness for the MNE. Risks ensue when local economies are dominated by knowledge and technology intensive industries; long-term trusting relationships are valued by subsidiaries to eliminate risks associated with innovation within a catch-up economy. On the other hand, in local business environments where short-term benefits of innovation take priority, the perceptions of inter-organizational trust are more likely associated with an economic perspective and an emphasis on shorter-term, predictable results.

Our findings also contribute to the discussion on causes of geographic agglomeration (Beaudry and Schiffauerova, 2009) in emerging economies. Indeed, the question of whether Marshall-Arrow-Romer (MAR) or Jacobs externalities provide a better explanation for agglomeration may be answered by considering the component of trust that is emphasized most strongly between 'outside' investors and local actors. Marshall (1890), Arrow (1962) and Romer (1986) support a logic of specialization, while Jacob's (1969) emphasized industrial diversity (Beaudry and Schiffauerova, 2009). In our analysis, the latter is a prevailing feature of the environment in Beijing, where scientific research and technology prospecting account for a greater share of GDP, while the former is more apparent in Shanghai and Guangzhou in terms of larger shares of GDP being accounted for in secondary industry (Tables 1 and 2). Based on our

analysis of respondents in MNE subsidiaries in these locations, the dominant component of trust varied appropriately. If we assume that inward investment will continue as long as ‘outside’ firms experience successful outcomes in projects with local actors, then clearly the character of inter-organizational trust has an important role to play in the process of agglomeration.

We shed light on how the foundation for collaboration is built during activities with partners in an emerging economy. Some of our cases went to China to make things. Others had a mandate to “explore” and engage in innovation. Our data suggests that initial subsidiary mandate did not determine the propensity then to engage in innovative projects with local partners; even subsidiaries that had an exploitative initial mandate seek resources from partners that can result in innovative outcomes. Chinese partners emerged to help the MNE subsidiary engage in variation, experimentation, and searching for new possibilities, and in taking risks. Knowledge tacitness among partners is high when this happens (Nielsen and Nielsen, 2009) and our study provides support to those who highlight the links between trustworthy relations between partners and effective knowledge sharing (Dahl and Pedersen, 2004). But our study goes further by highlighting the role played by the component of trust in these relationships.

The emerging model is shown in Figure 1.

FIGURE 1 HERE

The findings have various managerial and policy implications. Firstly, MNE managers will need to consider how different types of inter-organizational trust can impact innovative performance in any subsidiaries they establish in emerging economies such as China. In developing innovation strategies for subsidiaries in these types of countries, managers need to be cognizant not only of partner capability and competence, but also of the most appropriate

component of inter-organizational trust to emphasize. Our study suggests that factors in the sub-national location of the subsidiary will determine this choice and the subsequent social exchanges between partners that take place in response to these factors. In particular, the findings suggest MNE subsidiaries would benefit from those innovative projects with partners where the type of trust aligns with elements of the local institutional and business cultural environment.

Secondly, the results suggest that MNE subsidiary managers should think beyond IPR concerns when approaching the issue of collaboration with partners in emerging economies. Our study shows how MNE subsidiaries in China take into account specific location factors when utilizing inter-organizational trust in the host country. Where knowledge and technology-intensive industries are dominant in the local economy, long-term and relationship-oriented strategies can help subsidiaries create inter-organizational trust with local partners. This is consistent with the organizational perceptions of trust from a sociological perspective. Where primary and secondary industries are dominant in the local economy, result-oriented strategies are adopted that are more consistent with inter-organizational trust from an economic perspective.

Thirdly, policy makers in emerging economies at national and regional levels will also be able to draw from our results. Attracting MNE investment in economic development zones and encouraging MNEs to establish subsidiaries that undertake innovative projects will yield spill-over effects and development of technological competences in indigenous firms. However, policy makers can also encourage investing MNEs to consider the specific characteristics of the location choice and how the most appropriate form of trust between the subsidiary and local actors will be a potent driver of success. Alerting inward investors to the need for appropriate competencies in inter-organizational trust will help ensure the MNE will not encounter major

performance issues and will potentially remain committed to the location and growing the subsidiary.

Despite these insights and implications, our study suffers from a number of limitations that may be addressed in future work. Firstly, the sample was purposive by nature, and although this enabled us to identify MNE subsidiary managers as informants who had both first-hand experience of working with local partners on innovative projects, there is a danger our interpretations are biased by this selection. Secondly, we only looked at three tier-1 locations in China; it is possible that perceptions of inter-organizational trust and innovative outcomes will be different in more inland and less developed locations. Thirdly, while we only focussed on one emerging country, we have to be careful in generalizing these results to other emerging or transition economies. Fourthly, we only interviewed managers in the subsidiaries, rather than pairs of informants in subsidiaries and local partners. Future work could address these issues and include larger scale survey research designs across different locations in China and other emerging economies, as well as attempt to gain input from networks of partners working on innovation projects. We hope that future research will extend our study and examine the phenomenon of innovation in MNE subsidiaries in China and other emerging economies from an external perspective, in particular, the interactions between the nature of locations and trust as firms attempt to collaborate on new projects with local partners.

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FIGURES

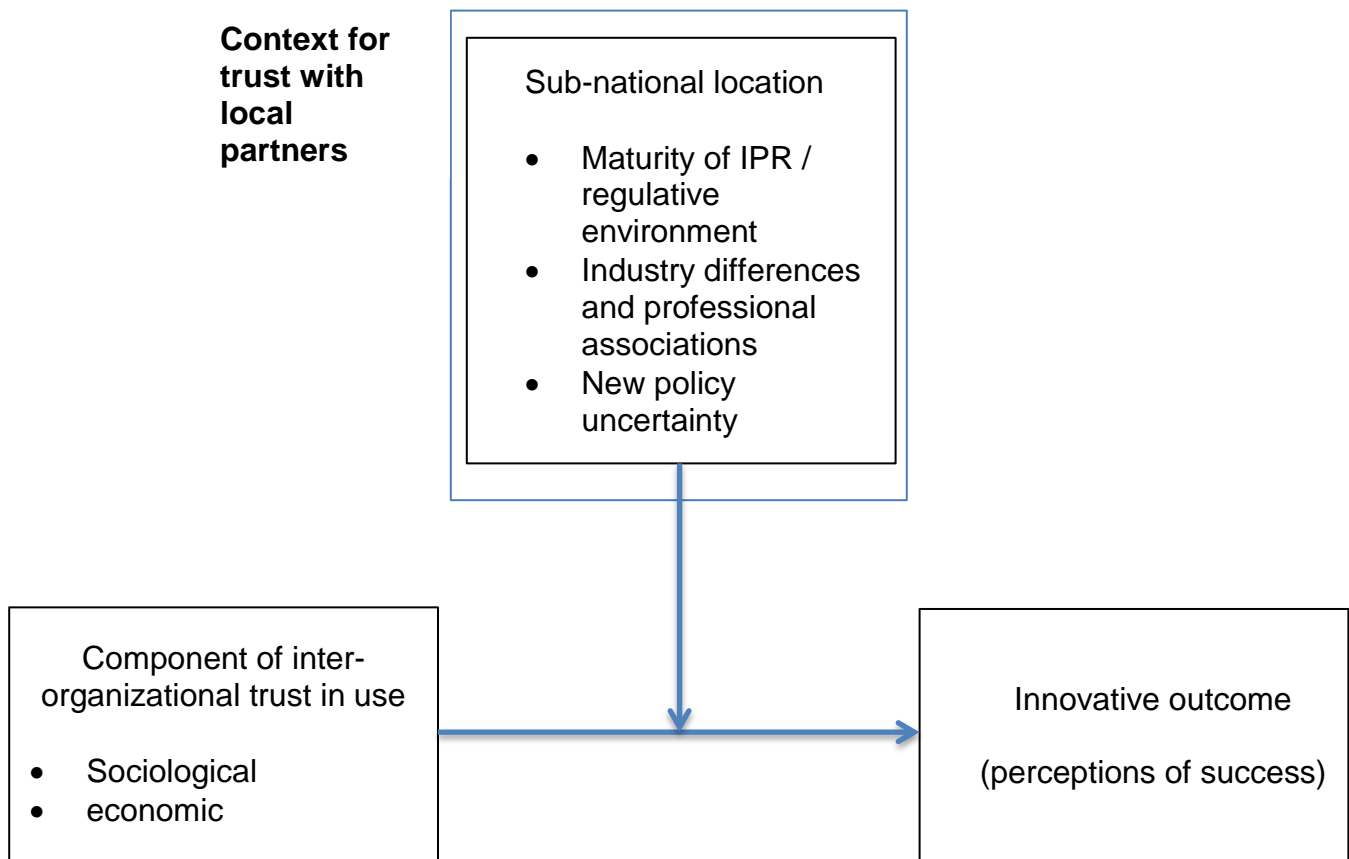


Fig 1. Emerging model.

TABLES

Table1

GDP in Beijing, Shanghai and Guangzhou in 2012 (100 million yuan RMB).

Category	Beijing	Shanghai	Guangzhou
Gross Domestic Product 2010	14113.6	17165.98	10748.28
Primary industry	124.4 (0.88%)	114.15 (0.67%)	188.56 (1.75%)
Secondary industry	3388.4 (24.01%)	7218.32 (42.05%)	4002.27 (37.24%)
Industry	2764.0	6538.21	3644.96
Construction	624.4	682.11	357.30
Tertiary industry including:	10600.8 (75.11%)	9833.51 (57.28%)	6557.45 (61.01%)
Information transmission, computer service and software industry	1214.1	675.98	433.30
Scientific research, technology service and geographic prospecting	941.1	391.28	212.91

Sources: Shanghai municipal statistics bureau. (2011), *Shanghai Statistical Year Book*, Beijing: China statistics press; Beijing municipal bureau of statistics. (2011), *Beijing Statistical Year Book*, Beijing: China statistics press; Guangzhou municipal statistics bureau. (2011), *Guangzhou Statistical Year Book*, Beijing: China statistics

Table 2

Differences between Beijing, Shanghai and Guangzhou

Indicator	Beijing	Shanghai	Guangzhou
Values of imports and exports (US \$ billion)	302	369	104
Share of service sector (in 100 billion RMB), of which % scientific research, technology service and geographic prospecting	941.1 6.67%	391.28 2.28%	212.91 1.98%
National IPR demonstration city 3	At development stage (2013.4 - 2014.4)	At development stage (2013.4 -2014.4)	Accredited (2012.4. among the first 23)
Number of universities	101	60	99
- under the Ministry of Education of the PRC	21	8	3
- under provincial control	80	52	96

Sources: HKTDC research: <http://china-trade-research.hktdc.com>; Shanghai municipal statistics bureau. (2011), *Shanghai Statistical Year Book*, Beijing: China statistics press; Beijing municipal bureau of statistics. (2011), *Beijing Statistical Year Book*, Beijing: China statistics press; Guangzhou municipal statistics bureau. (2011), *Guangzhou Statistical Year Book*, Beijing: China statistics press; Website of State Intellectual Property Office of PRC: http://www.sipo.gov.cn/ztl/ywzt/zscqsfsl/sdsfmd/201304/t20130412_791127.html; Yang Ze, *The number of universities in nine large cities of China*, <http://wenku.baidu.com/view/e71e0bdb7f1922791688e80d.html>

3 National IPR demonstration city is accredited by State Intellectual Property Office of PRC.
<http://sipo.gov.cn>

Table 3

Case Profiles

Subsidiary	Case(s)	Location	Industry	Subsidiary function
1	Case 1 , Case 12	Beijing	Automobile	Manufacturing & regional sales networking
2	Case 2 , Case 3	Beijing	Telecommunications equipment & computer software	Manufacturing, R&D
3	Case 4	Beijing	New-energy (PV Power)	Manufacturing, Service
4	Case 5	Beijing	Customer electronics, Telecoms equipment, Home appliances	Manufacturing, R&D,
5	Case 6	Beijing	Oil and gas industry	Technology services
6	Case 7	Beijing	Advertising	Services
7	Case 8, Case 11	Beijing	Food	Manufacturing & regional sales networking, R&D
8	Case 9, Case 10	Beijing	Finance and banking	Local banking
9	Case 13	Beijing	Petcare	Manufacturing, R&D
10	Case 14, Case15	Beijing	Chocolate & confectionary	Manufacturing, Regional sales networking
11	Case 16, Case 17	Shanghai	Internet technology& software	R&D, services, manufacturing
12	Case 18	Shanghai	Food	Manufacturing

13	Case 19	Shanghai	Semiconductors & Home appliances	Manufacturing, R&D
14	Case 20, Case 21	Shanghai	Confectionary	Manufacturing
15	Case 22	Shanghai	Internet technology and services	Services
16	Case 23	Shanghai	Elevators, escalators ad moving walkways	Manufacturing & Service
17	Case 24, Case 25	Shanghai	Public Relation	Service
18	Case 26	Guangzhou	Public Relation	Service
19	Case 27 , Case 33	Guangzhou	Petcare	Manufacturing, regional sales networking
20	Case 28	Guangzhou	Digital entertainment/ Interactive media	Manufacturing, services
21	Case 29, Case 31	Guangzhou	Telecoms equipment	Manufacturing, services
22	Case 30	Guangzhou	Banking	Services
23	Case 32	Guangzhou	New technology	Manufacturing & Service

Table 4

Summary of thematic coding.

Activity	Purpose	Outcome
Induction: First order themes	Open coding of all data to identify themes associated with innovation cases across three locations	<p>Beijing / Shanghai/ Guangzhou</p> <p>Emerging themes include:</p> <p>Knowledge intensive, primary economy, secondary economy, IPR, policy, institutions, professional association, policy risks, access to information.</p> <p>Goodwill, confidence, likeability, faith, fairness, integrity, affect-based, cognition-based, responsibility, competence-based, predictability, credibility, judgment.</p> <p>Threshold condition for cooperation; increasing predictability of collaboration; connecting for initial contacts; increasing strategic flexibility; facilitating information sharing; open communication channels; short-term benefits, long-term relationships.</p>
Induction: Second order themes	Identification of second order themes describing the differences of inter-organizational trust in three locations	<p>Beijing</p> <p>Inter-organizational trust: Truth/honesty; Confidence; Goodwill; Likeability; Faith; Benevolence; Integrity; Affect-based; Cognition-based</p> <p>Location: knowledge intensive</p> <hr/> <p>Shanghai/ Guangzhou</p> <p>Inter-organizational trust: Fairness; Competence-based trust; Predictability; Credibility; Responsibility; Judgment</p>

		<p>Location: Primary and secondary economy dominated</p> <p>Results-oriented; Long-term outlook</p>
<p>Abduction: Third order themes</p>	<p>Comparison of second order themes to theoretical constructs</p>	<p>Beijing – knowledge intensive industry dominated economy - sociological perspective of trust</p> <p>Shanghai / Guangzhou - first and second industry dominated economy- economic perspective of trust</p>

Table 5

First and second order themes related to inter-organizational trust.

Second order theme (broader category of trust)	First order theme (open codes of trust dimensions)	Theme in relevant literature	Key quote
Sociological trust	Truth/Honesty	Smith & Barclay (1997)	“It is a two –way and long-term relationship, and both parties behave with good will and would not take advantage of the other” (Business Development Manager, Case 6)
	Confidence	Aulakh et al. (1996)	
	Goodwill	Sako & Helper (1998); Dyer & Chu (2000)	
	Benevolence	Ganesan (1994); Doney & Cannon (1997)	
	Integrity	Aulakh et al.(1996)	
	Affect-based trust	Möllering (2002)	
	Cognition-based trust	Möllering (2002)	
Economic trust	Fairness	Zaheer et al. (1998); Dyer & Chu (2000)	“We benefited from the relationship with our Chinese suppliers, as they showed us they are competent, reliable, responsible, which makes our collaboration more predictable and on a fair basis” (Business Development Manager, Case 18)
	Credibility	Ganesan (1994); Doney & Cannon (1997)	
	Competence-based trust	Norman (2002); Sako & Helper (1998)	
	Predictability	Zaheer et al.(1998); Young-Ybarra & Wiersema (1999)	
	Responsibility	Smith & Barclay (1997)	
	Judgment	Smith & Barclay (1997)	

Table 6

Case outlines.

Case	Location	Principal trust perspective	Outcome: Key informant quote
Case 1: Experiment with a new type of automobile energy technology in partnership with a research lab in a local university.	Beijing	Economic A detailed plan set up before negotiations concluded.	“Suddenly they (the university) lost interest in this project which confused us a lot.”
Case 2: Working with a local mobile communication company to test a product with a new feature designed for the Asian market.	Beijing	Economic The goal has been clearly set up and imposed on both parties involved from very beginning.	“It didn’t work out, as the local mobile company questioned the target set by us.”
Case 3: Partnering with a local university to set up a lab. A new R&D scholarship was proposed by the company to sponsor postdoc students to work in the lab on the company initiated projects.	Beijing	Economic A detailed plan of the new scholarship to sponsor a research project was provided by the subsidiary	“...somehow, the representative of the university is not motivated by our plan.”
Case 4: Bidding for a project to set up an incubator in Zhongguancun Science Park through collaboration with local government office.	Beijing	Economic Driven by a short-term goal to bid for the project, the subsidiary made little effort on building a long term relationship. Respondent identifies business integrity as a missing component.	No data given
Case 5	Beijing	Economic	“It couldn’t get finished before the

Case	Location	Principal trust perspective	Outcome: Key informant quote
Testing a product design for cell-phone covers.		Subsidiary's principal concern is whether the new design is profitable, often ignoring local partner's input.	deadline"
Case 6: New application of oil exploitation technology under 200 meters below sea level.	Beijing	Economic Concern about the consequence of the new technology in local oil deposits does not raise the attention from subsidiary, being more results-driven.	"We didn't make progress as expected".
Case 7: A new "Youth Program" collaborated with local government was set up, and samples of a new milk product were distributed to middle school.	Beijing	Sociological The collaboration between the subsidiary and the local office of Chinese Communist Young League is based on the good relationship established before this project.	"Our customer evaluated our marketing plan very highly".
Case 8: A communication plan about newly improved management procedures was set up in collaboration with local government.	Beijing	Sociological Both parties emphasized the mutual beneficial side of the relationship, and value the faith and goodwill from the other party.	"The activity was covered by several local newspapers".
Case 9: Developing a new financial product collaborating with a local bank and another MNE subsidiary in Beijing.	Beijing	Sociological One of the goals for bank B to collaborate with the subsidiary X, is to get connected with bank A via X, as X has been established good relationships with bank A.	"We established a good relationship with bank B as well."

Case	Location	Principal trust perspective	Outcome: Key informant quote
Case 10: Developing a new online-payment system by working closely with a local bank.	Beijing	Sociological The subsidiary and partner bank both hope to build long-term relationship for more collaborations in future.	“We have been working on it since last year.”
Case 11: Introducing new management practices to third-party contracting workers.	Beijing	Sociological The introduction of new schedule is aimed at cultivating loyalty and maintaining good relationship with sub-contractors.	“They (the third-party contracting workers) seem all happy with it”.
Case 12: Using partner’s high technology to meet the new manufacturing standards for car batteries.	Beijing	Sociological A good understanding between two parties lays the foundation for collaboration on new technology standard.	“We established a long-term relationship to collaborate with our partner”.
Case 13: To implement new management procedure, based on an existing corporate culture training program.	Beijing	Sociological The subsidiary takes the advice from the consulting firm and designs the training session, based on the established mutual understanding.	“They (employees) understood our corporate culture better, and appreciated the value of the new program”
Case 14: Introducing flexible working schedule and practices that were already used elsewhere in the MNE.	Beijing	Sociological The flexible working hours and practices helped cultivate the relationship with the contracting workers.	“My team members are happy with it.”

Case	Location	Principal trust perspective	Outcome: Key informant quote
Case 15: Developing new packaging of products with smaller sizes to meet the needs of Chinese family in market.	Beijing	Sociological Local distributor has established mutual beneficial relationship with the subsidiary, which facilitates the company to take more advices of repacking products.	“The distributors placed our new packaged products at the center of their display racks.”
Case 16: Testing a new idea for software development in collaboration with local laboratories.	Shanghai	Economic The research center and local lab set up a very clear plan about new software developing together, and fully expect the new software to bring profits.	“...making progress as expected”.
Case 17: Collaborative project to set up an innovation space in a local high-tech science park.	Shanghai	Economic The subsidiary cares more about the progress of the project, without much effort to address the concerns from the local partner the high-tech park.	“We started this year and it seems great up till now.”
Case 18: Setting up a new internship program, in order to attract young talent to join the company the next year.	Shanghai	Economic There is high expectation about the internship program would attract some young talents for the next year, as there are several jobs opening of the subsidiary at that time.	“The meeting with the university went quite well “.
Case 19: Implementing semi-conductor technology developed in local Chinese	Shanghai	Economic The subsidiary wants to see the benefits brought by implementing this	“Our headquarters was satisfied with the progress”.

Case	Location	Principal trust perspective	Outcome: Key informant quote
lab for one of the MNE's products, saving manufacturing costs.		new product technology.	
Case 20: Establishing a new information platform between the subsidiary and local partner to improve communication between local management teams and the headquarter.	Shanghai	Economic Both the subsidiary and local distributor expect the new communication channel would increase the communication effectiveness.	"The communication is more efficient than before".
Case 21: Redesigning an existing procedure and protocol of communication with customers, in order to engage better with local customers.	Shanghai	Economic The subsidiary anticipates the feedback from the customers would help to develop more efficient working methods.	"It is still underway".
Case 22: Adopting a performance appraisal system from headquarters, to promote managerial effectiveness in the subsidiary.	Shanghai	Economic The HR consulting firm demonstrates its strengths and professionalism, which ensures the subsidiary the very positive results of implementing the new performance appraisal system.	"We are confident that we will see positive results next year".
Case 23: New training program to promote working efficiency and save labor cost.	Shanghai	Economic The training program is believed to be helpful in saving the costs, as the consulting firm has gained a good reputation in the industry.	"The top management team was happy with the delivery of the training".
Case 24:	Shanghai	Sociological	"It is difficult to tell if we can get there at this moment".

Case	Location	Principal trust perspective	Outcome: Key informant quote
A media campaign to promote company value and mission collaborating with local PR companies.		The subsidiary regards this project as a good start to build relationships with the local PR firm and industry.	
Case 25: A new project to promote IPR with the collaboration with municipal IPR association.	Shanghai	Sociological This new project is aimed at connecting the subsidiary with municipal IPR association for further collaborations in near future	“It is out of expectation”.
Case 26: Developing new communication channels in collaboration with local PR firm.	Guangzhou	Economic The collaboration with a local PR firm is aimed at developing new communication channel which increases the profits as a result	“Our Japanese customer was happy with our communication plan”.
Case 27: Setting up a new online platform for innovative knowledge sharing as part of “annual innovation award” project.	Guangzhou	Economic As a part of the “annual innovation award” project, the online platform is regarded as an effective strategy to achieve the goal.	“We made a lot of progress on it”
Case 28: Implementing a new marketing strategy initiated by the subsidiary.	Guangzhou	Economic The collaboration between the local advertising company and subsidiary is regarded as an effective strategy to expand in the local market.	“The extension to local digital entertainment market made progress”.
Case 29: Testing new material for cell-phone	Guangzhou	Economic The advices from the local contractors	“We saved the costs as a result.”

Case	Location	Principal trust perspective	Outcome: Key informant quote
covers.		are regarded helpful to save costs, which lays the foundation of collaboration between the local contractor and subsidiary.	
Case 30: Collaborating with a local bank to develop a new loans product to meet the needs of SME clients.	Guangzhou	Economic The collaboration on the new finance product is expected to bring profits to both banks.	“Our customers are happy with it”.
Case 31: Collaborating with local suppliers for a new media campaign, as a part of the efforts to build networks with new suppliers.	Guangzhou	Sociological The subsidiary expects for building a long-term and mutual beneficial relationship with the local partner after this campaign.	“We ended up working with another local company, instead of the previous partner” .
Case 32: Working with a municipal government funded lab to develop a new energy technology collaboratively.	Guangzhou	Sociological The subsidiary develops a long-term relationship with the research lab.	“The progress is much slower than we had expected”.
Case 33: New internal communication platform and communication channels aimed at sharing latest industry knowledge.	Guangzhou	Sociological The new proposal is based on the mutual understanding between the subsidiary and local consulting firm, and in the hope of further collaboration in the future.	The proposal failed to clearly demonstrate the benefits it can bring to the subsidiary. The program was canceled.

Table 7

Summary of categories and perceptions of outcomes.

Location of innovation	No. of cases	Inter-organizational trust	No. of cases	Innovative outcome, deemed by key informant as:		
				Success	Failure	Unknown
Beijing	15	Economic	6		3	1
					2	
		Sociological	9	3		1
				5		
Shanghai	10	Economic	8	3		
				4		1
		Sociological	2		1	
					1	
Guangzhou	8	Economic	5	2		
				3		
		Sociological	3		2	
					1	