Multinationals' recruiting in Marshallian Industrial Districts: the case of ZARA in the *Vinalopo* Industrial District

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Abstract: This paper explains how multinationals, following a competence-creation mandate and green-field investment approach, source specific tacit and sticky technical knowledge in industrial districts through recruiting. Focusing on textile-dedicated ZARA's location in a footwear-dedicated MID, we study its recruiting strategy using mixed-methods. ZARA recruits district footwear expertise by seeking primarily local workers with strong relational ties and intensive tacit knowledge originating from the best footwear-dedicated local firms that master knowledge on operations and expertise on managing local networks of subcontractors. Results reveal the recruiting process: good local firms play an involuntary key role for the benefit of newcomer multinationals.

Keywords: multinational enterprises, Marshallian industrial district, tacit knowledge, recruiting; footwear

1-INTRODUCTION

This study's topic is situated at the intersection of multinationals' recruiting and industrial districts (e.g. Belussi & Hervás-Oliver, 2016), analyzing multinationals' strategies in hiring valuable human capital in an Marshallian industrial district[1](MID). This study is located at

[1] Throughout this paper clusters and Marshallian Industrial Districts are used interchangeably, albeit we do recognize different social mechanisms prevailing in Marshallian Industrial Districts.

the intersection of multinationals in regions (De Propris & Driffield, 2006; Mariotti et al., 2014; Phelps & Fuller, 2016) industrial districts and clusters (Bellandi, 2001; De Propris et al., 2008; De Propris & Crevoisier, 2011; Menghinello et al., 2010). While labor mobility is well studied in agglomerations and recognized as a source of knowledge circulation (e.g. Almeida & Kogut, 1999) constituting a classic stylized fact of the Marshallian model (e.g. Becattini 1990, 1991, Saxenian 1994), multinationals in districts, however, is under-researched (Belussi, 2018), especially for labor mobility purposes. In particular, we seek to explore multinationals' entry in MIDs and their recruiting process.

When multinationals are considered within labor mobility in industrial districts, primarily the focus is based on analyzing employee outflows from multinationals to domestic firms to strengthen districts, transferring knowledge from multinationals to domestic firms (Angeli et al., 2014). Multinationals' recruiting or employee inflows from district firms to multinationals as a way to access local tacit and sticky knowledge, however, is under-studied. This is probably because multinationals in districts is a relatively recent retaken and under-researched phenomenon. As a result, *locally-dedicated recruiting strategies* by MNEs to source local (tacit) knowledge in industrial districts remain overlooked and constitute this study's purpose: understanding labor mobility from district firms to multinationals by focusing on the multinationals' recruiting process. The multinational's recruiting perspective is different yet related to labor mobility and is timely in the district topic. To the best of our knowledge, there is no other study on this specific niche.

Assuming that in clusters and Marshallian Industrial Districts (MIDs) knowledge transfer extensively occurs, among others, through labor mobility (e.g. Becattini 1991, Saxenian 1994, Almeida and Kogut 1999), it is expected that recruiting within district boundaries reinforces the multinational's access to local tacit knowledge. The latter is originated not only through new recruits' skills but through improving embeddedness in local social networks and their access to tacit knowledge because district employees are principal bearers of this local specific knowledge (e.g. Saxenian 1994) that is easily originated, transferred, shared and interpreted primarily within the district boundaries (e.g. Bellandi, 1989; Hervás-Oliver, Lleo, & Cervello, 2017). Therefore, we posit that *recruiting* constitutes a deliberate learning mechanism for multinationals in industrial districts that not only considers workers' skills but also the spatially-bounded tacit and sticky local/regional knowledge. By recruiting a highly skilled worker inside an industrial district, MNEs not only have access to their individual skills, but also to contextual-based local knowledge. This knowledge is

collectively created by workers' interaction and mobility inside the institutional context of the industrial district. Bearing this in mind, we incorporate specificities of districts within the labor mobility-recruiting topic that presents a special context for recruiting. From this district perspective, we argue that multinationals know the richness of the local tacit knowledge that is primarily based on local employees who possess *skills, capabilities and networks* that are underpinned by an atmosphere of mutual understanding and common social values, language and culture, which facilitates the knowledge recombination and circulation, reinforcing the production know-how nuclei *a là Bellandi* (Bellandi et al., 2019).

We posit that in MIDs, multinationals seek not only skilled (technical embodied knowledge) workers but also new recruits' ex-employers' capabilities to manage local networks and also new recruits' relational capital. Local networks and relational capital are both capital in districts and, therefore, become core elements for multinationals' embeddedness in districts. For this reason, recruiting from the best firms that orchestrate local networks facilitates getting access to those local network to achieve (know-how, know-who and know-what) embeddedness (Hervás-Oliver & Albors-Garrigos, 2014). The latter is not obvious outside the cluster/MID literature, as the contextual specificities and local tacit knowledge in MIDs make recruiting slightly different. Recruiting, therefore, brings something else: contextualized local tacit knowledge that supports that of the product and technology, a fact not necessarily present outside MIDs.

Thus, from the cluster/industrial district literature perspective, this study seeks to explore *how* multinationals recruit talent locally in those special contexts that MIDs represent, analyzing a different yet related perspective of labor mobility: recruiting. Our study's goal, therefore, consists of answering the following question: how do multinationals recruit when locating in MIDs? Additionally, our study also responds to other related research questions, primarily addressing the net effect that MNEs exert on host districts. While studies on FDI impact on industrial districts evidence positive effects (e.g. Menghinello et al., 2010), we go one step further in order to better understand MNE recruiting and subsequent effects in MIDs.

The setting is the *Vinalopo Industrial District* (VID) in Alicante (Spain), the largest Spanish footwear concentration, characterized by leading technology expertise and innovation capabilities, that was shocked in the late 1990s by the gradual location of the world largest global fashion firm (ZARA[2]), with a commitment to building capabilities in footwear

[2] We use Zara and Inditex indistinctly throughout the paper, the latter being the name of the corporation.

production, distinct but related to ZARA's existing clothing expertise at that time. This study analyses ZARA's recruiting strategy during 2000-2017 in the district. We use mixed-methods that allow a very high standard of empirical evidence, drawing data from interviews and the *LinkedIn* social network to build an original dataset, along with other databases (like, *Bureau van Dijk*).

2-LITERATURE REVIEW AND HYPOTHESIS

2.1 Skills from local value chains: capturing tacit knowledge and type of investments

The higher absorptive capacity (Cohen & Levinthal, 1990) of multinationals facilitates capillarity and access to local knowledge that can be reinterpreted and recombined, increasing productivity of workers due to the better technology and more intense use of local skilled labor through routines and capabilities which are superior to those of domestic firms, as Almeida (2007) points out. For these reasons, multinationals learn better than domestic firms and when locating in agglomerations seek contextualized tacit knowledge, a fact that does not necessarily occur outside spatially bounded districts (Hervás-Oliver & Boix-Domenech, 2013).

MNEs recruit highly skilled workers from MIDs in order to source local tacit knowledge (Hervás-Oliver & Boix-Domenech, 2013; Nachum & Keeble, 2003). This local labor not only brings tacit knowledge embedded in skills but also the capability to access and interpret tacit knowledge from the intense local interactions occurring in the focal district. In no small part, tacit knowledge from interactions across the value chain is primarily driven by embeddedness in local networks, where social ties reduce transaction costs for accessing local knowledge. In fact, in MIDs there is abundant local tacit knowledge as well as externalities that require a higher level of *embeddedness*, something that especially applies for multinationals. Thus, hypothesis 1 is stated as follows:

Hypothesis 1: *Located multinationals aimed at competence-creation will recruit skilled labor of the focal district's expertise from local industries.*

2.2 Expertise on local networks and capabilities: multinationals and best local firms

Under a competence creation mandate, subsidiaries' recruitment strategies will be directed to sourcing talented workers from those most innovative firms of the MID that can transfer knowledge to the MNE through new recruits. Particularly in MIDs, it is expected that a

subsidiary would primarily prefer new recruits from those companies with better knowledge and capabilities in the district technology. In the MID literature, existing networks are vital for ID functioning, in so far as they provide legitimacy to access tacit knowledge (Scott, 1992: 16). These social networks are the basis of the local social capital, and labor flows represent the transfer of a part of that local tacit knowledge embedded in social ties and local norms and institutions. Advanced or leading firms are the technology gatekeepers, that is, advanced firms that orchestrate local networks of SMEs (Hervás-Oliver & Albors-Garrigos, 2014; Lorenzoni & Lipparini, 1999). These local networks are a core factor for multinationals' embeddedness. Recruiting from the best firms that orchestrate local networks facilitates access to (know-how, know-who and know-what) those local networks. Workers from those leading firms possess the expertise and knowledge to manage and organize local networks of firms (Hervás-Oliver & Albors-Garrigos, 2014). Therefore, recruiting from the best firms is not only based on a new recruit's district expertise through his or her skills but also on the knowledge to properly manage and easily access the complex set of local networks that make districts function: expertise for managing local networks. Multinationals usually present a capability to activate local networks through subcontracting. Therefore, managing local network expertise is essential for multinational firms *vis-à-vis* domestic firms.

This idea of best firms is also well rooted in Klepper's (Klepper, 2007) inheritance view: workers from the best companies inherit or take knowledge when they create their own new ventures or when they move to a different company, a fact accepted in the MID literature (see Hervás-Oliver *et al.* 2017), and is also confirmed in the context of labor mobility by Boschma *et al.* (2009). All things considered, regarding expertise on local networks and capabilities from the best firms, it is expected that multinational firms in clusters and MIDs seek workers from the best local companies. Thus, hypothesis 2 is stated as follows:

Hypothesis 2: Located multinationals aimed at competence-creation will recruit focal expertise from local district firms that possess best-in-class capabilities and expertise to manage local networks.

As greenfield investments entice local employees (Meyer & Estrin, 2001; Slangen & Hennart, 2007), the question is what type of employees are hired. The best local firms in the focal district's expertise are ideal candidates to source knowledge from, as leading firms possess the best knowledge, practices and routines (*à la* Klepper, 2007). This might produce skill depletion by involuntary outbound labor mobility, crowding out industrial districts'

advanced firms in the sense of Combes and Duranton (2006) or Cooper (2001). Thus, the best industrial district firms, *specialists* or those local firms with good technical expertise play an involuntary key role for the benefit of newcomer multinationals. Following Combes and Duranton (2006), this might result in labor poaching (*i.e., loss of some key workers to competition and a higher wage bill to retain the others*) between competitors. Multinationals entering into districts through greenfield investments, however, might produce poaching because of their superior financial resources and their need to learn, become embedded and achieve access to local networks. This can impact on those leading firms which could suffer from poaching. Thus, we state the following hypothesis, 3:

Hypothesis 3: In MIDs, the best firms, whose employees present the best knowledge and local expertise, can suffer skill depletion by involuntary outbound labor mobility towards new MNEs.

2.3. Relational capital

In the specific case of MIDs, a district's core capabilities or advantage, underpinning its externalities, is sustained and reinforced by a *social dimension*, which in turn is sustained by trust, common language and social norms (Becattini, 1979; Brusco, 1982; Piore & Sabel, 1984). Learning in an MID, therefore, is a socially-based process in so far as social capital is implicit in localized knowledge flows (e.g. Singh 2005). Social capital conveying high-quality information and knowledge is local/regional (Almeida & Kogut, 1999; Becattini, 1990) and, for this reason, the social capital that new recruits bring into a multinational can be effectively applied when professional (and personal) ties, along with shared cognitive schemes and common mindsets, are present and contextualized in local spaces. Multinationals seek not only tacit knowledge but also *local* tacit knowledge (Hervás-Oliver & Boix-Domenech, 2013), especially that related to the district's core advantage, which is better diffused and understood when it originates and is used in the same space, especially in MIDs (Hervás-Oliver et al., 2017) where professional (and personal) ties, along with shared cognitive schemes and common mindsets, are embedded in local firms within the district boundaries.

From this perspective, MNEs using their new recruits are brokering positions in the local web of relationships developed in the MID. By hiring these highly skilled workers they are accessing to relevant knowledge, albeit through the latent and indirect relationships that their local workers have (Agndal et al., 2008). In other words, a new recruit originating from a

local firm in the MID would bring better social capital (local connections, ties, access to networks) conveying relational tacit knowledge to a multinational. Thus, hypothesis 4 is formulated as follows:

Hypothesis 4: Located multinationals aimed at competence-creation seek new recruits with high social capital accumulated in firms from the focal district.

3. SETTING AND METHODOLOGY

3.1 Setting: the Vinalopo Marshallian Industrial District (VID) and ZARA

In Spain, the *VID*[3] is focused on footwear manufacturing, being an export-oriented mature district. This footwear-dedicated manufacturing pole represents around 2,739 firms agglomerated in an area of 50 square kms and accounts for over 30,000 employees, contributing to leading the Spanish footwear industry by representing over 60% of its production and exports. The district is also responsible for more than 60% of the registered designs (footwear and fashion items) in Spain, as an indicator of creativity and innovation[4]. It is called an MID and it is well endowed with all the actors and organizations for footwear production, encompassing the entire value chain: creative designers, fashion firms, shoe manufacturers, auxiliary industry (soles, heels, leather, packaging, etc.), vocational training centers, research transfer offices, trade associations and local footwear-dedicated press and magazines, as shown in Table A-1 in the Appendix I and II. It presents a location quotient of 450% over the region's labor (see Belso-Martinez, 2006).

Established in 1975, the *Inditex-Zara* holding has become the world's largest fashion retailer with 162,000 employees and 7,504 stores spread across 94 countries by the end of 2018. In addition to ZARA, the flagship brand which accounted for 65% of the group's turnover in 2018, the corporation owns other fashion chains (Pull & Bear, Massimo Dutti, among others).

During the 1990s, Inditex-Zara carried out a direct (greenfield) investment setting up a subsidiary[5] in Elche at the core of the VID, a new footwear-dedicated subsidiary (Zara-VID henceforth), which was right in the heart of the district, and committed to competence-

[3] The Vinalopo industrial district (VID), Spain, is made up of four main municipalities: Elche, Elda, Petrer and Villena. Elche is, by far, the leading and largest hot spot. It is one of the largest footwear clusters in Europe, along with *Riviera del Brenta* in Veneto, Italy, sourcing shoes for premium brands such as Armani, Gucci, Prada, etc.

[4] See more about the cluster in Belso-Martinez (2006).

[5] Named TEMPE within the Inditex Group structure

creation in the footwear industry, a technology field distinct from Inditex-Zara's well-established clothing expertise. This competence-creating subsidiary mandate was a strategic asset-seeking investment[6] for creating a center of excellence, carrying out high value-added activities related to footwear manufacturing: prototyping, design, innovation, product manufacturing, logistics and global integration of contract manufacturers, although never manufacturing.

3.2 Methodology

In order to validate our hypotheses and set propositions, this study utilizes mixed-methods with both qualitative and quantitative analysis, encompassing direct face-to-face (semi-structured) interviews, focus groups and quantitative data analysis from Zara-VID recruiting. Each approach targets specific hypotheses, triangulating results. Qualitative fieldwork comprised 2 focus groups and 35 interviews accounting for a total number of 49 informants. Profiles included personnel at ZARA, trade associations, unions, suppliers, contractors, and other key informants embedded in the district. Zara-VID's recruiting policies were one of the key topics of the discussions and interviews. For the sake of brevity, Appendixes I and II present further details, including questionnaire, informants' profile and the construction of different variables from databases for the quantitative approach, including LinkedIn and SABI (Bureau van Dijk). More info upon request.

4. QUANTITATIVE EMPIRICS

4.1 Method

An original database on recruiting in the VID around Zara-VID was created using LinkedIn, capturing from a public source of data the individual-level data detailing recruits at Zara-VID. We proceeded by searching among all the workers from Inditex-Zara (in 2017) and then checking for the companies from which recruits had originated since 2000. For data building, we focused on the previous jobs (ex-employers of the new recruits, capturing the name of the company) before joining Zara-VID. Also, we collected the position that the new recruits took up when joining Zara-VID, looking especially at the technical position that was mentioned in the interviews. Data gathered from 2000 to 2017 was then analyzed as a pooled

[6] See Cantwell and Mudambi (2005:1109-1110)

cross section. More information on the use of social media for research is in Appendixes I and II.

Then, for the purpose of seeking information about Zara-VID recruits' past employers (not available at LinkedIn), we used the SABI database[7] to match ex-employers' capabilities, location and other variables of interest (export, size, 3-digit NACE codes, trademarks, etc.). Due to our research goals, some records were removed from the initial dataset owing to absence of information (in either LinkedIn or SABI) or inconsistencies in the profile (e.g. two simultaneous full-time working positions). After cleaning and adding different control variables from SABI, our final sample included 274 active employees at Zara-VID. Like other online digital platforms, due to accessibility and extraction possibilities (Maryann Feldman et al., 2015), LinkedIn represents an emerging data source for studies at the crossroads between human capital mobility and the geography of innovation fields (Maryann Feldman & Lowe, 2015).

4.2. Variable generation

As regards variables, the dependent variable in this study is the position that the new recruit takes up at Zara-VID, the *Occupation* variable, provided by Zara-VID jobs at LinkedIn. This is a dummy variable taking 1 when the position at Zara-VID is related to a technical footwear-dedicated job, like footwear designers, footwear technicians in charge of prototypes/samples fit, etc; and 0 otherwise (workers in logistics, IT, administration, etc.).

The *Capabilities* variable, a dummy variable referring to routines and knowledge gained from previous companies from which a new recruit originated, captures the potential transfer of capabilities from new recruits' ex-employers. We assigned firms to the different groups following a multi-stage procedure. Information from the qualitative fieldwork is utilized to classify firms from the sample using SABI indicators such as size (numbers of employees and assets), intangibles (trademarks) and international operations (export intensity) in their NACE category. After this process, we created the variable *Capabilities* that takes value 1 for *Advanced* firms (those firms attaining more robust resource and knowledge assets, that is, higher capabilities) and value 0 for firms that present less resources, vis-à-vis advanced

[7] This is the Bureau Van Dijk database for Spanish companies, for instance, the same version of the Italian AIDA (the latter for Italian companies) https://sabi.bvdinfo.com/version-2019222/Login.serv?product=sabineo&SetLanguage=en

ones. The latter ones are the best firms in footwear (*Specialists*), generally employing those employees named *coordinators*, presenting lower capabilities (less export intensity, fewer intangibles, smaller size, etc.). The *specialists* are footwear-dedicated leading firms that present less performance that those *advanced* ones that are leading firms outside the footwear field but are also located in the district area, such as consultants (e.g. KPMG), logistic firms (e.g. DHL), packing firms (e.g. Smurfit Kappa), etc. Multinationals seek both types of firms but the ones with more footwear-dedicated knowledge are the *specialists*.

Thirdly, the *Footwear Technology* variable, indicating the industry (whether from the district's expertise or not) of the company from which a recruit originated, using the 3-digit NACE code available in SABI. It is a dummy variable that takes the value of 1 when a new recruit at ZARA-VID originated from footwear-related industries (footwear, fashion industry, etc.) or the value of 0 otherwise (logistics, IT, and other non-footwear-dedication). The next variable was the *Relational capital* variable, depicting the relational capital obtained by the new employee, reflected in how many firms they had worked for before joining Zara-VID (assuming they have been embedded in different networks), as well as how many firms a recruit has previously worked for. Finally, the *Geography* variable, a dummy variable capturing the geography or spatial location of the company from which a recruit originated. It takes 1 when a new recruit has originated from a company located in the VID (all different municipalities of the district) or 0 otherwise (he/she originates from a company located outside the district).

4.3 Quantitative results

Correlations are presented in the Table A-2 in the Appendix I and II. The model is depicted in the following baseline equation (1), where *Occupation* is the dependent variable [*Occupation*: type of post that a new recruit takes at ZARA-VID, (1) Technical footwear-dedicated; (0) otherwise]. We also include interaction terms to capture hypotheses.

$$Occupation_i = \beta_0 + \beta_1 Age_i + \beta_2 Education_i + \beta_3 Years'experience_i + \beta_4 Relational\ capital_i + \beta_5 Capabilites_i + \beta_6 Footwear\ technology_i + \beta_7 Geography_i + \epsilon_i \quad (1)$$

where i represents a recruit and ϵ_i stands for the error term.

Following on from this, Table 1 shows the logistic regression results, using coefficients. For testing, hypothesis 1 is operationalized through *Geography* Footwear Technology* (referring to local industries in the VID value chain); hypothesis 2 is depicted by

*Geography*Capabilities* (capturing local advanced capabilities) and hypothesis 3 is measured as *Geography*Relational Capital* (addressing VID-located relational capital).

<Insert Table 1 about here>

As shown in Table 1, *Occupation* (dependent variable) indicates that new recruits present relatively higher probabilities of being hired for technical footwear-related positions when they originate from companies in the footwear industry (*Footwear Technology* variable, β=2.050 at p<.01) and are located in the district (*Geography* variable, β=1.349 at p<.01) and *Specialists* firms (*Capabilities* variable, β= -1.692 at p<.01). Relational capital is not significant as a direct effect, although it is once it is based on local geography (see below: Specification 4).

As observed from Specification 1, *Footwear Technology* and *Geography* are highly significant and relevant, as expected, as well as Capabilities but not the Relational capital variable. Why does Capabilities, as expected, show a negative relationship? The reason is based on the fact that non-district and non-footwear firms are stronger than local footwear firms. The best footwear firms providing technical knowledge to the multinational, in this particular case, are those categorized as *Specialists*. In other words, in the way the variable Capabilities is measured (*Advanced* vs *Specialists*), non-footwear-dedicated firms (e.g. DHL, KPMG, etc.) are the *Advanced* ones, being larger and presenting higher capabilities. Multinationals do not only source technical (footwear in this case) knowledge, but also managerial knowledge referred to IT, logistics, legal, finance or just administration tasks, and they do that from the best "general" firms. These firms are not precisely located at districts, and do not belong to the same industry (footwear in this case); rather, they are located in larger cities and usually workers from those occupations are sourced from large multinationals and domestic firms such as those from the Big Four or the like. In other words, the footwear-dedicated firms are the *Specialists* when comparing them to other companies that are not footwear-dedicated, showing smaller assets, lower intangibles and profits although they are the best firms specialized in footwear. For this reason, the variable *Capabilities* remains negative and significant (-1.692, -1.772, -1.0 and -1.727, across Specifications 1-to-4, respectively). Notice that the *Specialists* are the firms in the footwear industry that present those valuable employees named *coordinators*.

Although preliminary confirmation of some hypotheses is observed in Table 1, hypotheses 1, 2 and 3 are captured through their respective interaction terms with *Geography*, albeit direct effects also show preliminary insights. We observe the strength of the variable with its

main effect where *Footwear Technology* remains positively related to *Occupation* (*Footwear Technology* variable, β=1.631 in specification 2; β=2.039 in specification 3 and β=2.090 in specification 4 at p<.01) across different specifications, indicating that recruiting specific expertise available in the focal industry is of high value for multinationals. Then, when we cross *Geography* and the focal variable, Specification 2 shows the statistical relevance of the interaction *Geography*Footwear Technology* (β=1.607 at p<.05), indicating clearly that it is not only footwear technology (specific value chain activities) but from the local district which really matters for this specific case. Thus, hypothesis 1 stating that multinationals located in MIDs will recruit footwear technicians from the district's firms is confirmed. This result yields conclusive insights when we also join both qualitative and this quantitative result.

Furthermore, in Specification 3 the interaction term in specification 3 captures hypothesis 2. that *Geography*Capabilities* (β=-1.659 at p<0.1) is negatively related to the *Occupation* variable. Therefore, hypothesis 2, on the idea that multinationals located in districts will recruit technical (footwear) expertise from specialists is maintained, indicating that those specialists are local. As previously explained about Specification 1, new recruits present higher probabilities of being hired for footwear design and technically related activities when they originate from leading companies located in the district, those *specialists*, that take the negative coefficient because of the variable definition (Advanced and Specialists). These results coexist with the negative main effect of *Capabilities* (β=-1.000 at p<0.1) and the positive main effect of Geography (β=2.550 at p<0.1), endorsing the preference of Zara-VID of employees from local footwear *Specialist* firms.

Finally, in Specification 4, the positive relationship of *Geography*Relational Capital* interaction with recruiting specific expertise related to footwear design and technical operations (β=0.706 at p<0.01) corroborates hypothesis 3. Multinationals co-located in districts will recruit technical expertise through new recruits with solid relational capital accumulated from local firms. The direct effect per se was not enough; it is strongly aligned to the Occupation variable when it is locally related. Thus, the higher the number of local firms the new recruit has been working for, the higher the probability of being hired for footwear design or technical operations by the multinational. This outcome reinforces the role of local relational capital versus non-local, as its solidness and breadth increase the probability of its becoming an embedded multinational through the recruit's relationships, which tap into existent different local networks. Overall, the results offer robustness checks to those from the qualitative exercise. Finally, Table 2 shows marginal effects on the

Occupation variable that reinforces results. Results and the positive and significant coefficients reinforced the stated hypotheses. See Table 2.

<Insert Table 2 here>

5. QUALITATIVE EVIDENCE

5.1 Empirical field work

At the time of entry (late 1990s), Zara was a textile-devoted firm. Accessing to new technical learning knowledge on footwear was the *leitmotif*. Zara chose to locate at VID for its expertise and powerful auxiliary industry (over 2,000 firms) finding social and institutional proximity especially in terms of language, culture, labor market regulations and others in Spain, the home-base of the group. Zara, however, is a Global multinational[8].

As was stated during interviews (the words in brackets are ours), Zara-VID primarily seeks technical knowledge related to footwear:

"They (Zara-VID) are interested in the technical expertise for footwear; everything related to fashion (trends, colors, etc.) or non-footwear activities (IT, logistics, law, etc.) is not necessarily sourced from the district… they have much of that…" (A trade association representative).

Other ways of learning, apart from recruiting, were also evidenced:

"I would not say they only learn from recruiting… that is one option, but they are highly developed as regards outsourcing… they also started with the support of a local entrepreneur…" (A local firm from the footwear industry).

As key informants revealed during interviews, Zara-VID likes to recruit technicians from the best local firms (the words in brackets are ours):

[8] (See Rugman *et al.* 2016 classification).

"Zara-VID is really recruiting from the best local firms… they know what they want and for this reason recruit from the best local companies that possess the know-how to coordinate the local value chain…" (A local firm in the industry).

"….yes, they are afraid (of local firms)… absolutely, they (coordinators) know that they have the best people capable of organizing local people… they know everything about who is serious, who is not, who delivers on time and so forth… Zara-VID wanted them from the beginning, which means your knowledge walks out the door…!!" (A local firm, a direct competitor).

"Yes, absolutely, they want those key workers (from coordinators) … especially their technicians and plant managers that know how to coordinate the rest of the local actors… they make the local value chain functional and coordinate all the separated activities and firms…". (A trade association representative).

As shown, evidence from interviews confirms that new recruits taking up technical (footwear-related) product manufacturing positions at Zara-VID have a relatively high probability of being recruited when they have been previously working for advanced footwear-dedicated local firms. Among local firms, those whose employees have expertise in developing products and manufacturing, showing skills for problem-solving and integration in offshoring activities across borders and even co-integrating local and global activities are named *Coordinators* (as network orchestrators). These *coordinator* companies used to be manufacturers that gradually built up capabilities of design, prototyping and commercializing, outsourcing their production to local manufacturing firms and climbing the ladder of high-value adding activities, although some of them continue to manufacture a proportion of their sales. Their workers are highly valued. Those local companies are the ones ZARA is interested in.

As the results of the interviews indicated:

"They recruit from leading firms in all different industries, but especially they want local expertise… yes, those design teams, plant managers, technicians, all of them working in footwear manufacturing are from the district… they speak the local language of business… they know what is needed… and who does what…" . (A local firm, direct competitor).

"…footwear product manufacturing skills are really sought after, then the multinational applies its profound market knowledge, launches theme collections and sets the "trend"…

locally, Zara-VID transfers all this "fashion" knowledge into the local value chain… they have fused clothing and footwear…" (A firm from the auxiliary industry).

As regards relational capital, results from interviews clearly indicated that relational capital is important when it is locally-based and contextualized. During interviews, this point was also made:

"Expertise is a must, …, local expertise I mean, the more people and teams you know the better you coordinate tasks and solve technical problems faster… you have more references for benchmarking… and getting support; knowing who does or knows what is paramount: that is the really tacit knowledge from the district…" (A local firm).

While it is true that ZARA recruits from all local firms, in no small part due to their greenfield approach, they primarily poach local *specialists*. Local firms that work as subcontractors, however, receive new knowledge and skills about organization and footwear-dedicated technology directly, while others not working with ZARA also benefit from indirect spillovers based on new technology, market analysis and the best reputation of the focal district. As some local firms commented:

"ZARA has positioned our territory in the footwear global map, becoming a more important international hub for footwear that it was before ZARA".

"Yes, we continuously learn about what is new at ZARA, designs, products…..you learn it and it is a source of valuable information".

"New designers trained at ZARA are now available as freelancers, with new techniques and knowledge….this is good for the local firms.".

Overall, there are both positive and negative effects but a net positive effect that has reinvigorated a mature industrial district.

5.2 Results from qualitative field study

Specifically, the results show how the *coordinators* (of the local value chain) or those highly-skilled workers from the best local footwear firms (*Specialists*), with extensive experience in orchestrating local networks, best-in-class local technical expertise and abundant relational capital, are the primarily targets. These workers possess ex-employers' technical capabilities and specific skills in managing local networks (knowing-how, knowing-who and what expertise). Thus, the focal MNE can better integrate local operations with local networks more efficiently and develop embeddedness to obtain local knowledge from different

sources. Through these heuristics, MNEs speed the process of accessing tacit local knowledge and strengthen embeddedness in the local community. This knowledge sourcing is also complementary to other sources of knowledge, not in this study's scope, such as inter-firm co-operation with suppliers for subcontracting, local alliances or access to local research infrastructure. While some firms face a potential problem of poaching due to the greenfield investment's necessity to hire (e.g. Meyer & Estrin, 2001) in order to build up footwear-dedicated capabilities, as manifested in these results, the territory also benefits from new technical and market knowledge from the focal multinational's embeddedness and anchoring performance (Bellandi, 2001; De Propris & Crevoisier, 2011). In fact, as evidenced, the territory is a leading European footwear-dedicated hub thanks to the presence of the multinational.

The hiring dynamics observed not only involve the acquisition of district-specific knowledge by the ZARA subsidiary, but also a rejuvenation of local capabilities through learning interactions with local actors (manufacturers, technological institutes, universities or suppliers) because ZARA is embedded in those local networks. This embeddedness produces knowledge diffusion (spillovers) from the multinational and its integration in epistemic communities or new entrepreneurial initiatives. Those local firms working as subcontractors for ZARA need to join its logistic platform and learn its procedures, discovering new best practices to organize production. When local designers and technicians from local firms work with ZARA as subcontractors, they update and complement their specific skills through training in advanced design software or 3D prototyping, whose implementation requires cooperation with both sides. This also constitutes a learning effect from the territory that is even amplified when some of ZARA's ex-designers start up as freelancers and work with local manufacturers, diffusing new tendencies and new organizational and footwear-specific knowledge routines. This also constitutes a positive spillover (embeddedness) effect on the territory, in part facilitated by ZARA's alliance, previous to the greenfield investment, with a local footwear family that facilitated ZARA's entry to existing local networks.

Contacts and knowledge from ZARA's internal networks, throughout its locations in different footwear districts in the world, bring to the focal territory new managerial practices in the orchestration of productive and logistical activities, digitalization of procedures or socio-environmental responsibility, procedures and routines. ZARA also diffuses, with its manufacturing orders to local firms, new fashion tendencies from all around the world and from the clothing and fashion fields, new product designs and updated market analysis

insights (e.g. designs, tendencies, market opportunities, highly popular new products, etc.) that constitute a *must* for those local firms that manufacture premium shoes based on top fashion standards. ZARA, therefore, performs a positive anchor role. These results bring an interesting insight that suggests that the net effects from MNEs' entry depend on embeddedness and anchoring performance by MNEs.

6. CONCLUSIONS

This study's topic is situated at the intersection of multinationals' recruiting and industrial districts, analyzing *locally-dedicated recruiting strategies* by MNEs to source local (tacit) knowledge in industrial districts. Our study's goal is to answer the following question: how do multinationals recruit in MIDs? Additionally, our study also responds to other related research questions, primarily addressing the net effect that MNEs exert on host districts.

Our insights, based on mixed-methods, explain through quantitative and qualitative evidence how multinationals design recruiting strategies to source knowledge in MIDs, confirming the four stated hypotheses: (H1) located multinationals aimed at competence-creation will recruit skilled labor from local industries of the focal district's expertise; (H2) recruiting is aimed at focal expertise from local district firms that possess best-in-class capabilities and expertise to manage local networks; (H3) best firms whose employees present best knowledge and local expertise can suffer skill depletion by involuntary outbound labor mobility (poaching) towards new MNEs, and; (H4) new recruits with high social capital accumulated in firms from the focal district are preferred.

In addition, from the qualitative evidence, we can also infer two tentative propositions. First, the particular mode of accessing to local knowledge is moderated by the type of MNE investment for entering into MIDs. In this case, we evidence a *greenfield* investment requiring the hiring of local employees with tacit knowledge and access to local networks; it is a *must* that hiring might complement local embeddedness. While in a brownfield operation the focal MNE uses its own resources and combines them with assets acquired locally, a greenfield investment uses primarily assets of the own multinational (its own logistics, organizational procedures, IT infrastructure, etc.) (Meyer & Estrin, 2001). As a consequence, greenfield investments clearly require the hiring of local workers, because that implies building a subsidiary from bottom up. In the case of brownfield investments or acquisitions, however, MNEs acquire the whole pack of employees, tacit knowledge and access to local networks. As Meyer and Estrin (2001:578) posit, brownfield investments and acquisitions

give multinationals direct access to local resources by buying employees and team-embedded tacit knowledge. Greenfield investments, however, make multinationals rely on local markets and networks to hire workers and obtain other knowledge (Slangen & Hennart, 2007). In any case, as (Propris et al., 2008:578) point out, both imply control of production activities and high exposure to risk. Therefore, we state the following proposition 1:

Proposition 1: In MDIs, greenfield investment is directly related to recruiting local workers in order to access local tacit knowledge, vis-à-vis brown investments.

Second, De Propris and Crevoisier (2011) evaluate the role of international firms in MIDs as regards two main dimensions: *local embeddedness* and *anchoring*. The former refers to the system of relationships and structures where firms and institutions interact, depicting interaction and knowledge share. In this case the focal multinational learns but can also spillover knowledge and technology to the local networks. In a similar way, (Bellandi, 2001) argues that in large firms in districts that show a moderately strong level of embeddedness, the benefits can be related to a "virtuous cycle of increasing technological capabilities", where MNEs learn from local highly-skilled labor, R&D facilities and institutional support while also spillover technology and knowledge is disseminated in the district. Therefore, the presence of a multinational in a district could provide a balanced net effect where learning from local interaction and embeddedness in local networks co-exist with knowledge dissemination to those local networks[9]. De Propris & Crevoisier (2011) also refer to *anchoring*, from (Feldman, 2003), understood as the capacity of firms from outside the location to establish their roots in the local context but at the same time "engaging in open, multi-local networks". This implies not only the presence of an MNE that would automatically absorb local knowledge, but one that would also diffuse knowledge from other external networks where the multinational is also embedded. In other words, anchoring bridges the local district to access knowledge from other contexts that pollinate the local context with inputs, ideas and innovations, thus creating positive effects in focal territories. Hervás-Oliver & Boix-Domenech (2013) empirically show this anchoring effect when multinationals are multi-embedded across districts and connect them, transferring knowledge in global pipelines. In this particular case, our evidence shows how the focal MNE is embedded in local networks, involuntarily transferring knowledge from other locations through its internal networks to the focal territory, such as skills, market analysis, fashion

[9] Adverse effects might also occur, see Bellandi (2001).

information, etc. This embeddedness and anchoring performance constitute positive spillovers that counteract those negative ones from poaching.

Therefore, MNEs' specific approach to focal districts, balancing local embeddedness and anchoring, will determine whether the net effect result is positive or negative. The tension between those two dimensions, and their specific direction, can differently impact districts. Therefore, we state the following proposition 2:

Proposition 2: In MIDs, net effects on focal districts from MNEs' entry depend on how embeddedness and anchoring are performed by incoming MNEs.

These results expand our knowledge in the regional and MID literature about multinationals' embeddedness beyond modes of entry or networking in districts (Bellandi, 2001; De Propris et al., 2008; De Propris & Crevoisier, 2011; De Propris & Driffield, 2006; Mariotti et al., 2014; Menghinello et al., 2010) In particular, this study's insights propose an alternative approach to access to local sticky and tacit knowledge using recruiting and highlighting the roles that the best firms pursue in districts. Also, results complement and expand the MNEs' and MID dialogue (e.g. Belussi, 2018; Østergaard & Park, 2015), enriching distinctively the geography of labor mobility by presenting a different perspective and connecting to the economic geography of multinationals in regions.

The literature has primarily measured multinational impacts in districts, proving that FDI is quite positive for local districts (e.g. Menghinello et al., 2010). Our study, however, adopts a different angle and presents novel insights from a different perspective. According to the results, and for policymakers, it is worth highlighting the adverse effects that multinationals might cause to advanced home-grown firms that can suffer skills depletion by involuntary outbound labor mobility, crowding out industrial districts' advanced firms in the sense of Combes and Duranton (2006) or Cooper (2001). This being the case, the best industrial district firms play an involuntary key role for the benefit of arriving multinationals. This is a very novel result in the MID literature. Interestingly, the different approach to FDI, whether brown or greenfield, determines how intense recruiting will be. The net effect, therefore, on a focal district is determined by the specific mode of entry and the tension between learning, embeddedness and anchoring. This is also interesting for districts' literature.

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