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**Knowledge Flows and Capability Building in the  
Indian IT Sector: A Comparative Analysis of  
Cluster and Non-Cluster Locations**

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The role of industrial clusters in the industrialization of many emerging economies continues to dominate the debate of existence of industrial clusters among policy makers and researchers worldwide. Notwithstanding earlier explanations of industrial clusters, recent discussions on this debate focused on knowledge spillovers among participants of the clusters. However, knowledge flows between non local networks and the cluster actors have not been accorded due attention in the literature. Further, the literature does not compare knowledge flows among firms within clusters and firms outside clusters. In this study, we attempt a comparative analysis of knowledge flows and capability formation of firms in the Indian Information Technology sector (IT sector) across cluster and non-cluster locations. As part of this study, we found that while capabilities (both process and practice) affect performance of firms only in clusters, economies of scale and signaling mechanisms of firms' impact performance of firms outside clusters. While economies of scale do not impact the performance of firms within clusters, it does however affect the capability formation of firms within clusters only. Further, we found that local and national non-customer networks affect capability formation of firms within and outside clusters whereas international customer networks affect capability formation of firms within clusters only..

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