



# Headquarters Allocation of Resources to Innovation Transfer Projects within the Multinational Enterprise

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## ABSTRACT

This paper examines headquarters allocation of resources to specific innovation transfer projects within the multinational enterprise between sending and receiving subsidiaries, focusing on the role of the subsidiary hosting the transfer. Resource allocation is of key strategic importance for the organization given that resources are limited in the multinational enterprise and that headquarters is the principal actor in distributing resources internally between competing innovation transfer projects. Findings from a dataset of 169 innovation transfer projects reveal that headquarters tend to favor established lines of innovation at the subsidiary level, as opposed to overall subsidiary operational relatedness for additional corporate resources. It is found that headquarters also tend to allocate resources to acquired subsidiaries' transfer projects to a higher degree than to those of greenfield ones. A curvilinear effect is found for subsidiary bargaining power which is initially positive and subsequently negative. The results highlight that certain subsidiary and innovation traits are determinants of headquarters resource allocation.

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## 1. Introduction

In recent years' literature on the multinational enterprise (MNE), it is almost self-evident that the competitive advantage of MNEs is highly related to knowledge. This competitive advantage can be found not only in the capability to develop knowledge but also in the capability to transfer knowledge within the MNE (cf., Kogut and Zander, 1992; 1993). Knowledge can be characterized in terms of innovations (Kreiner and Mouritzen, 2003; Teece, 1986), which have come to be considered a critical resource and a source of value creation for the MNE (Barney, 1991; Franko, 1989; Hitt et al., 1996). The development and deployment of these innovations are increasingly taking place in globally dispersed subsidiaries, actors which have been put forth as key figures in the MNE irrespective of how this type of firm is conceptualized, i.e., as a 'heterarchy' (Hedlund, 1986), 'transnational firm' (Bartlett and Ghoshal, 1989), 'differentiated network' (Nohria and Ghoshal, 1997) or 'metanational' (Doz et al., 2001).

The cost of developing new innovations is substantial, which subsequently has the effect that exploiting existing innovations, in terms of internal transfer, becomes crucial. Some twenty years ago, Bartlett and Ghoshal (1989) noted that the development and dispersion of innovations was becoming a key strategic challenge for MNEs. Although generally lower than the cost of developing new innovations, the cost of innovation transfer is far from trivial (Teece, 1977). However, innovation transfer does not take place automatically, and barriers to transfer exist (Gupta and Govindarajan, 2000). In this setting headquarters can intervene in subsidiary level activities and give strategic direction (Rugman and Verbeke, 2001) or even force innovation transfer to take place (Foss and Pedersen, 2002). Put differently, headquarters has an important role in governing structures and processes within the MNE, and the transfer of innovations presents a good arena for investigating questions related to headquarters knowledge

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governing role. Research on multi-unit firms, such as MNEs has suggested that an important function of headquarters is to run an internal market for resources, often conceptualized as internal capital markets which effectively put resources to use in those subsidiaries where headquarters finds the best strategic use for them (Khanna and Tice, 2001; Lamont, 1997; Mudambi, 1999; Shin and Stulz, 1998; Stein, 1997). The MNE organization allows headquarters to exercise control rights to allocate corporate resources to a limited number of promising transfer projects, between a sending and a receiving subsidiary in the MNE (see Fig. 1), anticipating corporate-wide value added. While it may be clear to most observers that headquarters can allocate additional resources to specific subsidiaries and innovation transfer projects, it is less clear which subsidiaries and transfer projects receive this support. That is, which subsidiaries and which transfer projects receive resources from headquarters? In trying to answer these questions the internal market for MNE resources as dictated by headquarters in intra-MNE transfer projects is delineated.

Using a unique dataset comprising 169 specific subsidiary innovation transfer projects within the MNE this paper contributes insights to the field of intra-MNE competition for headquarters' resources, which previously has received limited attention in the literature besides a focus on financial resources (Bower, 1970; Williamson, 1975). Consequently, this is a first step toward filling the gap regarding different units' competition for resources and especially top management's role in this intra-firm competition (e.g., Birkinshaw and Lingblad, 2005). Headquarters involvement also addresses the urge for extending the concept of headquarters attention into more concrete practices used in strategic activities (Bouquet et al., 2009). Hence, we add to the understanding of how subsidiary factors drive headquarters resource allocation and the influence of headquarters on subsidiary strategic direction (Noda and Bower, 1996). We do this by focusing on human and intangible resource allocation, as recommended as an area for further inquiry by Bower and Gilbert (2005). Thus, we are able to clarify ideas on subsidiary factors as important precursors to the role of headquarters resource allocation in innovation transfers. In doing so, we address the lack of research bridging innovation transfer and headquarters resource allocation in the MNE.

The remainder of the paper is structured as follows. The theoretical foundations are outlined in the next section, followed by a set of hypotheses concerning headquarters allocation of corporate resources directed toward specific transfer projects hosted by subsidiaries. After that, the data and the statistical method are presented, followed by a section showing the results from the proposed model. The results are discussed and the paper concludes with limitations, suggestions for future research and implications for management.

## 2. Headquarters' resource allocation and innovation transfer projects

The allocation of corporate resources by headquarters to promising projects for potential value-adding effects has been put forth as a key activity in multi-unit firms, which is of particular relevance for MNEs (Khanna and Tice, 2001; Lamont, 1997; Mudambi, 1999; Shin and Stulz, 1998; Stein, 1997). The assumption is that MNEs operate in resource-constrained environments, implying that all positive net present value projects cannot receive corporate resource support. Consequently, headquarters is put in a position where it has to rank-order internal projects in deciding which project it deems as most promising. In the rank-ordering process, it becomes obvious that a project is not only chosen on its own merits but also in comparison with other MNE projects, i.e., on the projects relative merits, and thus all projects are considered interdependent under a time period. This idea derives from the notion that projects, as well as the subsidiaries hosting them, are connected in a network of sometimes vast geographic distances (Bartlett and Ghoshal 1989; Doz et al., 2001; Hedlund 1986; Nohria and Ghoshal 1997).

Penrose (1959) defined a broader set of resources than just labor, capital and natural resources. Following this, Wernerfelt (1984) considered resources to be anything that can be a strength or a weakness for a firm, and he also divided resources into a tangible and an intangible dimension. Wernerfelt further concluded that no firms can possess exactly the same physical, human

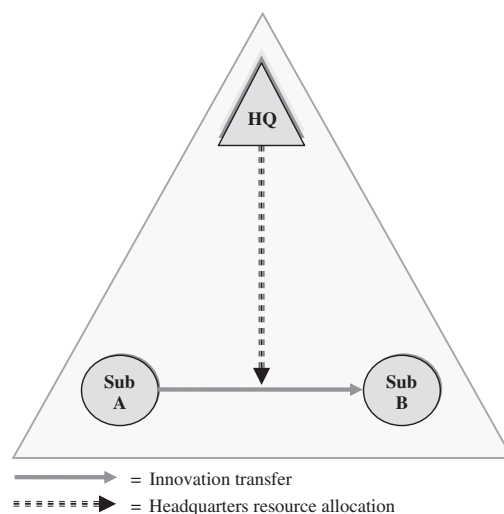


Fig. 1. Visualization of headquarters resource allocation to innovation transfer projects within the MNE.

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