



journal homepage: [www.elsevier.com/locate/emj](http://www.elsevier.com/locate/emj)

# Does innovation lead to global orientation? Empirical evidence from a sample of Italian firms

Daniele Cerrato \*

*Dipartimento di Scienze Economiche e Sociali, Università Cattolica del Sacro Cuore, Via Emilia Parmense, 84, 29100 Piacenza, Italy*

## KEYWORDS

Multinational enterprises;  
Firm-specific advantage;  
Regional strategy;  
Global strategy;  
Innovation;  
Italy

**Summary** This paper analyses the relationship between innovation at firm and industry level, and the global vs regional strategy of multinational enterprises (MNEs). Based on data from a sample of large Italian manufacturing firms, the analysis shows that technological assets affect a firm's ability to overcome the liability of (regional) foreignness: the extent to which MNEs can exploit their firm-specific technological advantages is greater within their home region, but they also exploit them outside it. Furthermore, the results show that a firm's foreign (outside the home country) and global sales (outside the home region) are higher, the greater the technology intensity of the industry in which they operate. These findings suggest that, although MNEs tend to operate regionally rather than globally, their strategic orientation is contingent upon firm- and industry-specific factors. Managers need to take the potential for globally exploiting R&D investments into account, even if it may not be equally successful within and outside the home region, and may be constrained by a number of inter-regional barriers.

© 2009 Elsevier Ltd. All rights reserved.

## Introduction

International business scholars have highlighted both the benefits and drawbacks of internationalisation from various theoretical perspectives. Economies of scale and scope, operational flexibility, and risk diversification are the typically indicated benefits of international expansion (Caves, 1971; Kogut, 1985; Ghoshal, 1987). In particular, internationalisation theorists (Buckley and Casson, 1976; Rugman, 1981) argue that possession of intangible assets is the main deter-

minant of the foreign direct investments (FDIs) of a multinational enterprise (MNE) because of the market imperfections associated with the international transaction of knowledge-based assets. An MNE emerges as a way of coordinating activities across countries when its ownership-specific and location-specific advantages combine with intermediate market imperfections (Dunning, 1981).

However, when firms go international, they face higher costs than local firms because of their unfamiliarity with the local environment (Hymer, 1976; Zaheer, 1995). For this reason, in order to be successful in foreign markets, MNEs need to leverage on firm-specific advantages (FSAs) that

\* Tel.: +39 0523 599315; fax: +39 0523 599303.  
E-mail address: [daniele.cerrato@unicatt.it](mailto:daniele.cerrato@unicatt.it)

enable them to overcome the 'liability of foreignness'. FSAs are related to the set of firm-specific factors that determine a firm's competitive advantage. An FSA is defined as a '*unique capability proprietary to the organisation*' (Collinson and Rugman, 2008: 219). It may be built on the internalisation of an asset over which the firm has a proprietary control, such as product or process technology, managerial capabilities, or marketing or distributional skills.

The concept of liability of foreignness, which has traditionally been theorised in the context of entry into a particular country, has recently been rethought at regional level. Empirical evidence shows that most of the world's largest MNEs are not 'global' in the sense of having penetrated foreign markets broadly and deeply across the world (Rugman and Verbeke, 2004), but mainly home region oriented: i.e., the large majority of their sales are made within their own region of the 'triad' (North America, European Union and Asia). This suggests that the additional costs of doing business abroad can be much higher when MNEs enter the other regions of the triad and, consequently that the transferability of their FSAs is limited.

Rugman and Verbeke (2007) have introduced the concept of home region-bound FSAs to indicate this phenomenon. The building of 'regional blocs' has emerged as a general tendency in the world economy. In a broad sense, a region is an area characterised by similarities in culture, customer needs, regulatory environment, and level of social and economic development. Regional strategies seem to be as the most effective responses to cross-border competition (Ghemawat, 2005). They are built on the basic idea that regions are a critical unit of analysis in the formulation and implementation of international strategies.

Since the seminal work of Rugman and Verbeke (2004), a number of other studies have addressed the home region bias of MNEs (Delios and Beamish, 2005; Dunning et al., 2007; Osegowitsch and Sammartino, 2008). However, most research into global/regional strategy has focused on the *Fortune 500* MNEs, and the current debate on regionalisation could be enriched with analyses of different countries and industries. Furthermore, little is known about the causal relationships between FSAs and a global vs regional strategic orientation.

The evidence of a home region bias proves the crucial importance of the transferability of competitive advantages, and calls for further research into the factors affecting a firm's capability to overcome the liability of regional foreignness and operate globally (Rugman and Verbeke, 2007; Qian et al., 2008). One key question which deserves further investigation is: what are the main factors affecting a firm's liability of regional foreignness? In other words, what competitive advantages are more characterised by a non-location-bound nature and allow a more global orientation in terms of sales dispersion?

This paper is an attempt to answer such questions and contribute to the regionalisation/globalisation debate in two ways. First of all, using data on a sample of Italian MNEs, it provides new empirical evidence about MNEs' global vs regional orientation. The logic of regionalisation has not yet been applied to the Italian context, and so, it is interesting to analyse whether Italian MNEs are widely present in global markets, and to what extent. Secondly, this study focuses on one particular FSA – innovation and tech-

nological assets – to address the questions: does innovation play a role as a driver of a global strategy at both industry and firm level? Are the firms characterised by greater R&D intensity also characterised by a more global orientation? Is the global or regional orientation of a firm related to the technology intensity of the industry in which it operates?

## Firm-specific advantages and the liability of foreignness

Exploiting intangible assets across countries is a key driver of internationalisation. Internalisation theory (Buckley and Casson, 1976; Hennart, 1982; Rugman, 1981) explains the existence of MNEs by focusing on the central argument that, given the existence of imperfections in the markets of intangible assets (such as technology, know how and brands), MNEs internalise intermediate markets. The emphasis on firm-specific intangible assets as drivers of internationalisation is also central in resource-based view studies. The resource-based view emerged as the dominant paradigm in strategic management studies in the 1990s (Barney, 1991). From this perspective, an MNE's competitive advantage relies on its capability to accumulate, exploit, recombine and innovate its set of firm-specific resources, and to transfer these resources to the various nodes of its extended network.

Rugman and Verbeke (2001) refined the concept of FSAs by building on the distinction between location-bound and non-location-bound FSAs. *Location-boundedness* indicates the limited extent to which the deployment and exploitation of FSAs can be spread around the globe. FSAs include upstream strengths such as technological superiority and downstream strengths such as brand and marketing capabilities.

A competitive advantage can be defined as being non-location-bound to the extent that the resources that originate it are easily transferable across the different subsidiaries of an MNE. If we assume that an MNE can extract rents from its set of resources that exceed those achieved by individual firms operating in different countries, we imply that a somewhat non-location-bound FSA (and therefore also a non-location-bound firm-specific resource) is a building block of an MNE's strategy (Cerrato, 2006). An MNE has a set of resources and capabilities that are shared by the different 'nodes' of its network. A global strategy relies on the MNE's ability to transfer its non-location-bound resources across its subsidiaries (Tallman and Yip, 2001).

The transferability of resources can be positioned along a *continuum* whose extremes are represented by physical resources located within a specific context, and financial resources, which are by definition unspecialised and transferable. Between this *continuum* lie a range of intangible resources and capabilities with different degrees of transferability. For example, reputation, brand and technological innovations are important non-location-bound FSAs, while transferability of organisational culture and practices may be more difficult.

The possession of transferable FSAs is crucial to overseas expansion. Firms operating in foreign countries face higher costs than local firms because of factors such as a lack of local information and market knowledge, or unfamiliarity

متن کامل مقاله

دریافت فوری ←

**ISI**Articles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات