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International innovation and strategic initiatives: A research agenda

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ABSTRACT

Despite the argument that leveraging the expertise of foreign subsidiaries to the global firm benefits the whole firm's competitive advantage, in the case of international innovation, such leveraging rarely takes place. We investigate this paradox, applying research on strategic initiatives to the context of international R&D. Developing a conceptual model on the basis of communication psychology, we analyse how the innovative expertise of R&D subsidiaries may be leveraged to benefit the global firm. Specifically, we determine six elements whose greater exploration can lead to a deeper understanding of how the innovation expertise of a foreign R&D subsidiary may be leveraged.

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1. Introduction

An important consideration for international innovation remains the ability of foreign R&D subsidiaries to leverage their innovation expertise to the whole firm to contribute to the global firm's, rather than just to the subsidiary's, competitive advantage. Nohria and Ghoshal (1997) and Birkinshaw et al. (1998) show that decentralised innovative efforts by subsidiaries contribute significantly to the firm's ability to connect to local markets and thus its competitive edge over firms whose innovations are generated on a purely national basis. This 'home-base augmenting' by multinational corporations (MNCs) that want to enhance their asset base has been identified by both Kogut (1991) and Kuemmerle (1999) as a major driving force behind the internationalisation of innovation and research and development (R&D).

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Yet MNCs rarely seem to undertake such augmentation. During the past 16 years, empirical studies consistently find that MNCs rarely, if ever, use their network of foreign R&D subsidiaries to generate innovations on a global basis or leverage their subsidiaries' innovation expertise. As Doz et al. (2006) show, this effect exists even though MNCs legally control their subsidiaries and possess a resource base that could enable such leverage.

Thus, from a resource-based perspective, failing to use these available resources to generate innovations not only is highly inefficient but also negatively affects the firm's competitive advantage, because subsidiary capabilities within a MNC that remain unleveraged cannot become part of the firm-specific advantage, as Birkinshaw et al. (1998) note. Thus, the whole concept of international innovation comes into question, and a critical observer might ask: What sense does international R&D make at all if the foreign R&D subsidiaries' innovation expertise is never recognised? Could not all the firm's innovations be generated at headquarters, instead of spending money on the costly and complex management processes required by an international R&D organisation?

This problem in turn leads to the question of how, in an international innovation network, the firm's subsidiaries can make themselves notable and achieve recognition of their capabilities on a global basis. We therefore must understand what it takes for a foreign R&D subsidiary to contribute to the innovation activities of the whole firm, which factors govern the probability of being noted and recognised by headquarters, and how environmental and moderating factors may complicate this situation. This article attempts to shed light on these issues by proposing a research agenda that identifies some building blocks whose greater exploration would lead to an improved understanding. To arrive at this understanding, we are guided by a central research question: *How can a foreign R&D subsidiary of an MNC leverage its innovation expertise to benefit the global firm?*

To answer this question, we proceed as follows: first, we review existing literature on international R&D, which reveals that we know little about the intrafirm processes of international innovation that determine whether the subsidiary's expertise is leveraged. Second, we apply extant research on strategic initiatives as an analytical tool to track the subsidiary's initiatives, which it uses to leverage its expertise in the MNC (Section 2).

With this approach, we identify different stages through which an initiative must pass and analyse this process by developing a conceptual model based on an analogy from communication psychology (Section 3). This analysis indicates areas that require further investigation if we want to arrive at a detailed understanding of how the leverage of the subsidiary's expertise occurs, as well as the causal factors that may favour or impede this leverage. We define each of these areas and develop research questions that suggest ways to explore them further (Section 4). The conclusion (Section 5) summarises our development and points to strategies for empirically operationalising the research questions.

2. Literature review

2.1. *International R&D and the missing recognition of foreign R&D subsidiaries*

Most established literature on international R&D focuses on the external sphere of the firm, including research questions centered on firm–government and firm–host country interaction, as Zander (1999) and Medcof (2001) review. With regard to the firms themselves, academic research has focused on the *interfirm* organisation of R&D activities by alliances and networks, largely to the exclusion of *intrafirm* organisations. Argyres and Silverman (2004) show that scholars devote relatively little attention to the relationship between internal organisation structure and innovation outcomes. According to Frost and Zhou (2005), little systematic research addresses the firm-level factors that facilitate or impede the integration of knowledge in firms with global technology strategies. Despite the recent contributions of Belderbos (2003), Feinberg and Gupta (2004), Foss and Pedersen (2004) and Cantwell and Mudambi (2005), which demonstrate the increasing importance of a firm's wholly controlled international R&D activities for its competitive position rather than those that result from alliances or joint ventures, we still know little about how a firm's internal structural characteristics and the external scope and extent of its international innovation network relate. Specifically, as Penner-Hahn

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