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IBR-1019; No. of Pages 12

ARTICLE IN PRESS

International Business Review xxx (2013) xxx–xxx

Contents lists available at SciVerse ScienceDirect

International Business Review

journal homepage: www.elsevier.com/locate/ibusrev

Emerging versus advanced country MNEs investing in Europe: A typology of subsidiary global–local connections

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ARTICLE INFO

Article history:
Available online xxx

Keywords:
Emerging economies
Innovation
Knowledge transfer
Local development
Multinational enterprise (MNE)

ABSTRACT

This paper empirically investigates how subsidiaries of multinationals from both emerging (EMNEs) and advanced (AMNEs) economies investing in Europe learn from the local context and contribute to it as much as they benefit from it. To explore this we classify the behavior of MNE subsidiaries into different typologies on the basis of how knowledge is transferred within the multinational and on the nature of the local innovative connections. The empirical analysis relies on an entirely new, subsidiary-level dataset in the industrial machinery sector in Italy and Germany. Results show that EMNEs and AMNEs undertake different strategies for tapping into local knowledge and for transferring it within the company. We identify a new typology of EMNE subsidiary that contributes through its significant local innovative efforts to development processes in the host country. This result suggests possible win-win situations from which novel policy implications may be drawn.

1. Introduction

As European countries face one of the worst economic crises in recent history, emerging economies are demonstrating their dynamism, showing significant resilience to the current global downturn. We are witnessing an unprecedented international expansion of emerging economy firms into multinational enterprises (MNEs). According to UNCTAD (2011), outflows of foreign direct investment (OFDI) from developing and transition economies reached the record level of $388 billion in 2010, corresponding to 29% of global outflows, up from 16% in 2007 before the financial crisis. Furthermore in 2011 among the top ten Fortune Global 500 companies, there were three Chinese firms, Sinopec, China National Petroleum, and State Grid along with other leading emerging economy MNEs (EMNEs) including Petrobras from Brazil, Tata Motors from India, Pemex from Mexico and Petronas from Malaysia.

EMNEs are attracting a great deal of interest from international business (IB) scholars, who are focusing mainly on how they have come into prominence and how they differ from advanced country MNEs (AMNEs), in a bid to understand whether EMNEs' behavior is consistent with mainstream IB theories (Ramamurti & Singh, 2009).[4] This burgeoning literature stresses that one of the chief motivations for this growth of EMNEs is the appropriation of strategic assets (Dunning, 1993). While EMNEs' strengths rely mainly on their specific home country advantages (e.g. low factor costs, state support), they generally have few accumulated firm-specific advantages, and their expansion abroad, especially to advanced countries, is driven crucially by the search for technology, management, and strategic skills, brands, and commercial knowledge, which are all largely lacking in their home countries (Rugman, 2009, chap. 3). Thus, internationalization is a strategy aimed at strengthening firms based on the accumulation of previously unavailable resources.[5]

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[4] The study of developing country MNEs is not novel per se. Third world MNEs were being investigated in the late 1970s and the 1980s (Lall, 1983; Wells, 1983). However, the recent wave of EMNE expansion has resulted in renewed attention and is giving rise to a new strand in the IB literature (Wells, 2009, chap. 2).

[5] This point is stressed in the literature. See among others: Aulakh (2007), Chen and Chen (1998), Child and Rodrigues (2005), Li (2007), Luo and Tung (2007), Makino, Lau, and Yeh (2002), and Yiu, Lau, and Bruton (2007).

0969-5931/$ – see front matter © 2013 Published by Elsevier Ltd.
http://dx.doi.org/10.1016/j.ibusrev.2013.06.002

The keenness of EMNEs to acquire high-value strategic assets in advanced economies has generated considerable interest, concern, and controversy worldwide. The rapid expansion of EMNEs is viewed with a mix of hope and fear: on the one hand, inputs of fresh capital are welcomed by host countries, especially in these times of low growth; on the other hand, there are reservations, especially in the case of Chinese investments, that foreign investments are an expression of the investing country's or state's interest in gaining control over advanced economy strategic assets and infrastructures, which is also causing concern related to loss of dominance in key technological capabilities. These mixed sentiments are often based on scanty information and individual interpretations and we argue that there is an urgent need for more empirical research to provide a better understanding of this phenomenon. Questions are being asked about how strategic assets are being acquired, and whether EMNEs are displaying a predatory 'take-and-leave' behavior or are contributing to the development trajectories of advanced host economies.

There is a rapidly growing literature on EMNEs' strategies and motivations for investing in advanced economies, which is based mainly on firm case studies (see among others Liu & Li, 2002; Zhang & Filippov, 2009), on descriptive investigations of specific host countries (e.g. on Germany, Schüler-Zhou & Schüller, 2009; on Italy, Pietrobelli, Rabellotti, & Sanfilippo, 2011; on the UK, Cross & Voss, 2008; Liu & Tian, 2008), and on particular industries (e.g. on India's pharmaceutical sector, Athreye & Godley, 2009, and steel industry, Kumar & Chadha, 2009). There are also some econometric studies, many of which are based on aggregate Chinese FDI data, that explore the importance of different motivations, including the search for strategic assets (Amighini, Rabellotti, & Sanfilippo, 2011; Buckley et al., 2007; Kolstad & Wiig, 2012; Pradhan, 2009).

However, little attention has so far been paid to understanding the impact of EMNEs on the local contexts of advanced country host economies, and there is little existing micro-level empirical research on this topic. This paper addresses this gap in the literature by exploring empirically, using both quantitative and qualitative evidence, the following research questions: *How do EMNE subsidiaries investing in Europe learn from the local context, and do they contribute to it as much as they benefit from it? How does their behavior differ from that of AMNEs?*

To investigate these questions we develop a novel conceptual framework (Section 2), to classify the behavior of MNE subsidiaries into different typologies on the basis of how knowledge is transferred within the MNE and on the level of local innovative connections, which is in line with earlier research in this field (Lorenzen & Mudambi, 2010; Marin & Giuliani, 2011; Mudambi & Swift, 2012). The empirical analysis relies on an entirely new subsidiary-level dataset, which includes EMNEs and AMNEs operating in the industrial machinery sectors in Italy and Germany (see Section 3 for the methodology). Our results show that EMNEs and AMNEs adopt different strategies for tapping into local knowledge and diffusing it within the company (Section 4). Besides, beyond confirming the existence of predatory attitudes among EMNEs, we highlight a different typology of EMNE subsidiaries that contributes to the host country's development processes through its significant local innovative efforts. This suggests a new view of EMNEs in advanced countries and the possibility of an interesting win-win situation, which has some important implications for policy (Section 5).

2. Conceptual framework: a typology of MNE subsidiaries

The impact of MNE operations on local development and growth has been a consuming interest for development economists for many years (for a survey see Görg & Greenaway, 2004; Smeets, 2008). More recently, it has become the focus of several IB studies (Beugelsdijk, McCann, & Mudambi, 2010; Buckley & Ghauri, 2004; Piscitello & Santangelo, 2007). In the development economics literature, MNEs are generally seen as a black box (for a critical appraisal see Marin & Bell, 2006), while the value of IB research lies in its efforts to unpack MNE heterogeneity and study the characteristics of MNE subsidiaries, their governance modes, and the interactions between them and their headquarters (among many others see: Bartlett & Ghoshal, 1986; Birkinshaw & Hood, 1998; Cantwell & Mudambi, 2005; Ghoshal & Bartlett, 1990).

In a bid to understand how MNEs contribute to the local economies of host countries, there has been a wave of studies analyzing global–local connections (Giuliani & Marin, 2007; Lorenzen & Mudambi, 2010; Marin & Giuliani, 2011). This body of work focuses on two main issues: (a) investigating how MNE subsidiaries' global connections contribute to feeding local processes of innovation through the formation of local ties, and (b) exploring the reverse process, i.e. how MNE subsidiaries tap into local knowledge to feed the global intra-corporate knowledge pipeline (Bell, Arza, Giuliani, & Marin, 2008, among others). The IB literature has proposed several typologies in the attempt to highlight the differences across subsidiaries in terms of dependence on headquarters, level of innovativeness, and degree of entrepreneurship, among other factors (see e.g. Bartlett & Ghoshal, 1986; Jarrillo & Martinez, 1990; Marin & Bell, 2010; Papanastassiou & Pearce, 1999). In the present paper, we build on this research and develop a new typology of MNE subsidiaries based on the following two dimensions (Fig. 1):

(1) The degree to which MNEs transfer and/or receive knowledge to/from their headquarters and to/from other subsidiaries.
(2) The level of locally embedded innovative activities.

We chose these two dimensions because the first indicates the extent to which a MNE subsidiary either relies on corporate-generated knowledge or acts as source of knowledge for the rest of the corporation (i.e. intra-corporate knowledge transfer), and the second refers to the degree to which subsidiaries are embedded in local innovative activities, allowing the absorption of local knowledge, but also demonstrating a commitment to generate their own local networks and innovation activities.

The first dimension – i.e. the intra-corporate knowledge transfer – allows an evaluation of whether subsidiaries are simply passive branches of the corporate headquarters or, on the contrary, they are innovative and independent organizational units, capable of tapping into local knowledge, thus envisaging a knowledge transfer process that runs in reverse direction from what is

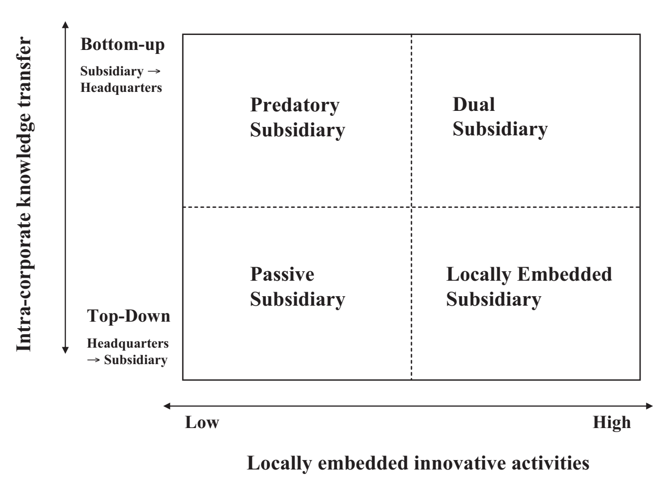

Fig. 1. A typology of subsidiaries.