



UNIVERSITÀ
DI PAVIA



AALBORG UNIVERSITY
DENMARK

Multinationals and Local Economies. Some Evidence from Europe

Roberta Rabelotti

University of Pavia & University of Aalborg

Padova, May 17th 2019

MNEs and local economies

- With the increasing global connectivity MNEs and local economies have become closely interrelated and linked by many interdependencies, but traditionally:
 - International Business (IB): focus on MNEs and their corporate networks, treating location (mainly at country level) as an independent source of advantages or disadvantages for geographically mobile firms;
 - Economic Geography (EG): focus on the nature and growth of local economies and in particular of agglomerations and clusters.

IB & EG get closer

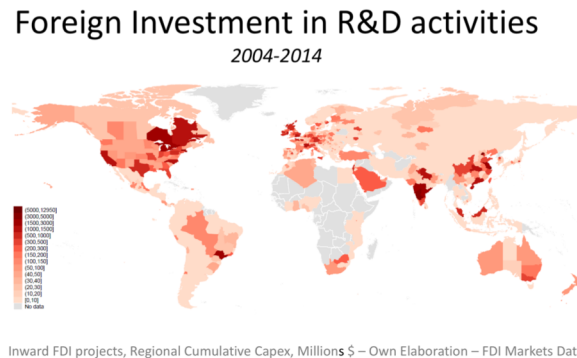
- As capability building and knowledge creation processes become more globally connected, MNEs and local economies are confronting similar challenges and their competitiveness are increasingly interconnected:
 - Multinational enterprises (MNEs) are knowledge integrators, complementing their own knowledge by tapping into geographically dispersed, local knowledge bases in clusters around the world;
 - Local economies depend on a combination between localized productive and knowledge assets and access to global pipelines.

A research agenda on MNEs and local economies

- ① MNEs strategic decisions about which activities to locate abroad influence their location strategies;
- ② MNEs choice between acquisitions and greenfield investments differently impacts on local economies;
- ③ (Emerging market) multinationals (EMNEs) face frictions in the process of acquiring locally embedded knowledge.

1) On MNEs location strategies of different value chain activities

MNEs are increasingly specializing in particular activities of the value chain, fragmented across several locations and involving different degrees of local embeddedness.



How do MNEs organise the different activities of their value chains in space?

Are MNEs' different activities attracted by national or rather regional/local factors?

Fitting location factors with activities

- 19,444 greenfield investments from the entire world into the EU25 countries, geocoded at NUTS2 level (Source: FDI Markets) and disaggregated in 5 activities: Headquarters, Innovative Activities, Commercial Activities, Production, Logistic and Distribution;
- MNEs locate different activities where they can be carried out most effectively, tapping into location-specific resources and capabilities;
- Regional/local factors are stronger drivers than national characteristics for:
 - R&D investments attracted by regions with strong innovation systems (proxied by the Social Filter);
 - Investments in manufacturing driven by regional labor market conditions;
- National characteristics better explain MNEs' location decisions of headquarters and commercial functions.

2) Greenfield or acquisitions? This is the question.

- MNEs may choose to enter into a foreign market with **greenfield investments** (building a new enterprise) or **acquisitions** (buying an existing enterprise);
- Most of the empirical and theoretical economic literature has focused on the volume of FDI, neglecting its composition across modes;
- The impact of acquisitions and greenfield investments on the host economy (country and regional) can be very different;
- The common wisdom is that acquisitions bring “less” than greenfield FDI to the host economy.

What does drive the mode choice?

- **Characteristics of the investing firm:** productivity, size, industry diversification, past FDI experience; # of patents;
- **Characteristics of host regions** (as deviation from the national mean): size; GDP per capita, institutional quality, innovation level;
- **Characteristics of the host countries:** openness, geographical distance between the origin and the destination country of FDI.

➤ What MNEs' characteristics do influence the choice of the investment entry mode? Are more productive (or more innovative firms) favouring one entry mode over the other?

➤ Do national AND regional characteristics of the host economy matter for this choice?

➤ How are MNEs' characteristics and 'host' regions matched via different entry modes?

Preliminary findings in a nutshell

- 7,338 deals (27% acquisitions and 73% greenfield investments) from Forbes Global 2000:
 - More efficient and innovative MNEs are more likely to undertake greenfield investments;
 - MNEs with previous investments in the same country enter with acquisitions;
 - Regional institutional quality helps with the ‘selection’ of greenfield investments by the most efficient and innovative MNEs;
 - Regions (and cluster) to attract greenfield investments from the most efficient and innovative MNEs should improve the quality of their institutions (i.e. efficient planning system, well functioning administrative system, good educational system).

3) What are EMNEs' targeting with their acquisitions in developed countries?

Individual firms' technological knowledge and expertise

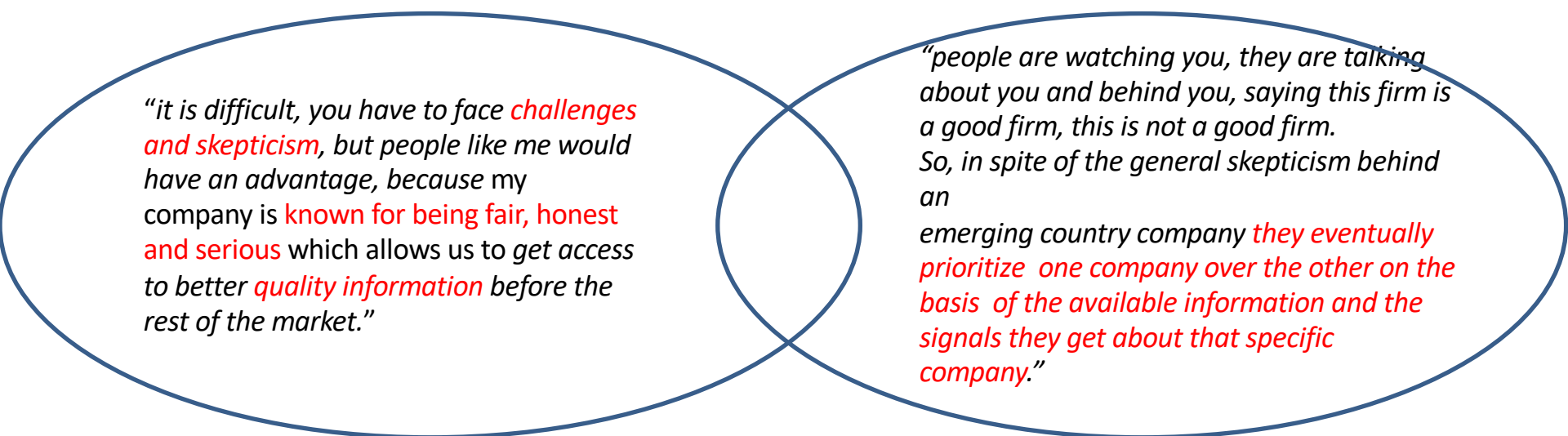
Specific regions/clusters to tap into local knowledge and networks



466 cross-border acquisitions accomplished by 301 Chinese and Indian medium to high-tech firms in EU28 and the U.S.

EMNEs face frictions in accessing transnational knowledge networks through acquisitions

- **Lack of absorptive capacity:** to identify useful knowledge, learn and successfully accommodate innovation and learning routines with those of the acquired firm;
- **Status as an expression of reputation:** liability of emergingness and negative stigma jeopardizing EMNEs legitimacy.



*"it is difficult, you have to face **challenges and skepticism**, but people like me would have an advantage, because my company is **known for being fair, honest and serious** which allows us to get access to better **quality information** before the rest of the market."*

*"people are watching you, they are talking about you and behind you, saying this firm is a good firm, this is not a good firm. So, in spite of the general skepticism behind an emerging country company **they eventually prioritize one company over the other on the basis of the available information and the signals they get about that specific company.**"*

Learning through acquisitions is not for everyone

- Local economies and target firms may resist to knowledge transfer, creating barriers to EMNEs' attempts to absorb and appropriate relevant knowledge;
- This resistance is moderated by a strong knowledge base and high status, as an expression of reputation;
- EMNEs are not a homogeneous group of firms, all suffering from country-of-origin skepticism and liability of emergingness, but there are differences (in absorptive capacity and reputation) influencing their capability to leverage knowledge across space.

Issues for future research

- How MNEs master the **process of embedding locally**? Which are the effective sources of knowledge and the learning mechanisms: learning from customers? from co-operation? from labor mobility?
- What range of **frictions** MNEs face in the process of integrating in locally embedded knowledge networks?
- How **facilitators** can help less experienced MNEs to understand the local context, to access local resources and networking with local partners?
- Which are the **pathways for reverse knowledge**? How new knowledge is disseminated and integrated within MNEs? As well as back in the home countries?
- How do different **entry modes** influence routines of knowledge accumulation in MNEs and in the host local economies?



Special Issue

Journal of International Business Policy

Global Value Chain-Oriented Policies

co-edited by Ari Van Assche, Carlo Pietrobelli & Roberta Rabellotti

Submission deadline
September 1, 2019

Thank you

robertarabellotti.it