

RESEARCH PROPOSAL
MOTIVES, INTERMEDIATE UNITS AND SPILLOVERS: THE MNE
SIDE OF THE FDI EFFECTS

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Resumen

When studying spillover effects we have to take into account a huge number of variables to understand whether the transfer of knowledge (and the subsequent effect on development) is going to happen or not. A great part of the literature on spillovers has concentrate on the host country antecedents as the effect is happening there. In this research we want to study why not all FDI is equal and operationalize the influence that the investor (the MNE) has on the Spillover generation in the host country. We expect that the motive for investing, the industry and the existence of an internal intermediate structure effectively making the investment are influencing the generation of spillovers.

Key Words:

Spillovers; Motives; Industry; Springboard subsidiary; Intermediate Units

1. INTRODUCTION

The amount of literature about Spillovers is huge; there are two main reasons that justify, in a way, this vast work. On the one hand the inconclusive results of a part of the studies. On the other, there is the number of variables that influences the context where spillovers are generated.

The first element is the inconclusive results that the literature has generated; moreover many disciplines are trying to understand the phenomenon, from international business, to economics on growth and development or economic geography leading to the analysis of different variables, contexts and conclusions (Meyer and Sinani, 2009). Different underlying theories, different measures and different points of view have led to mixed results.

The second problem is the number of variables influencing the phenomenon which adds complexity when analysing spillovers effects; a lot of variables are identified in the literature ranging from elements affecting the investment decision (for instance ownership advantages (Dunning, 1988), to country and local firm characteristics (i.e. absorptive capacity, technological gap, etc.) Narula (2014) has pointed out the importance of taking a system view when having such a high number of variables and interactions between them that is difficult to explain both the process and the output. In this respect, a first step is developed by Perri and Peruffo (2014); they group the variables in antecedents, attributes and consequences of the spillover effect process and point to the macro and the micro level which help to arrange the variables that are floating in the literature.

One of their conclusions is that “insufficient use of IB theory in existing FDI spillover research has prevented an appropriate account of firm-level characteristics”. This means that variables related to the MNE – or to the investors- are under studied in this literature. In the same vein, Meyer and Sinani (2009) conclude that bringing the firm back into the spillovers research is needed referring to the call for more research on the characteristics of foreign investors which influences the spillover effects. One possible explanation for the distinct results in the literature is that not all FDI is equal (Narula, 2014); in other words there are characteristics of the investors (MNE) that also influence the generation of the spillovers.

Therefore, in this study, we try to find the main variables related to the decisions and characteristics of the FDI, influencing the capital flow, which have a direct effect on the generation of spillovers. Our purpose is to analyze the influence that the investor (whoever inside the MNE is making it) has on the potential generation of spillovers.

2. THEORETICAL FRAMEWORK

2.1. Motives

Driffield and Love (2007) say that the FDI motive is a crucial antecedent on the nature and size of the potential spillovers. The links between the motivations of FDI and the spillovers effects are evident: certain investment projects have higher multiplier effects than others (Narula,2014). For instance, an inward FDI motivated by a strong technology-based ownership advantage won't have the same effects as an inward FDI motivated by a technology sourcing considerations (Driffield and Love, 2007). Surprisingly not many studies have addressed this issue. However, Cuervo-Cazurra and Narula (2015) alert that the use of motives as an obvious antecedent for potential benefits of FDI can be misjudged and that the motives must be gauged accurately to better evaluate the potential for upgrading. Motives are driven by the interaction between firm specific advantages and location advantages, therefore analysing the particular conditions of the investors home country is important due to the influence that this have in following particular motives (Cuervo-Cazurra, 2014).

2.2. Industry

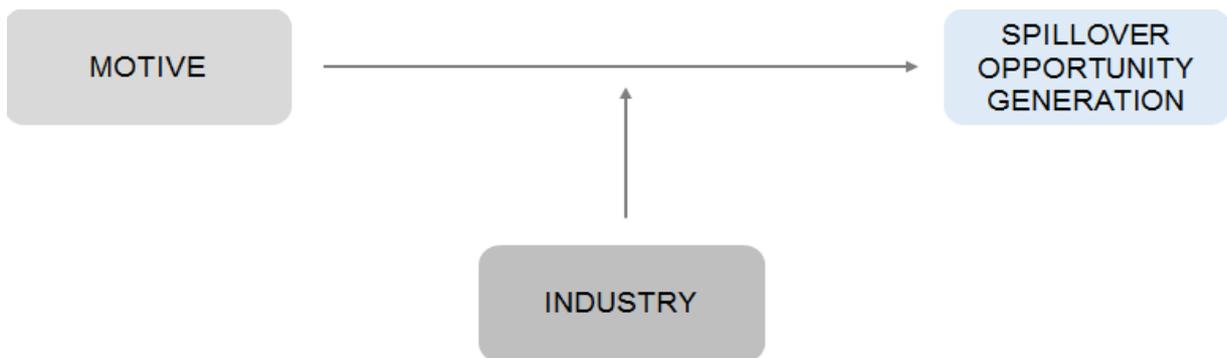
As we have said, certain investments have different effects than others; another explanation is the industry effect. Industry is a variable which may interact between the motive and the spillover output: for instance Morrissey (2012) observe that some types of services are less likely to promote linkages and interactions. Furthermore a large share of FDI in developing countries has been in the primary industry where the chances for spillovers could be less likely to occur compare with manufacturing for instance (Narula, 2014). These point out that there is an interaction between the motive, the industry and the spillover effect. Table 1 can help us understanding this interaction between motives and sectors in creating conditions for spillovers opportunities. Another important question is designing measures for spillovers taking into account the industry: "not all inventions are patented is especially binding in the service sector where innovation is often tied to tacit knowledge which cannot be patented (Kaiser, 2002). Here we propose two exploratory studies about the relation between motives and manufacturing and services in order to compare differences in the effects (a theoretic justification of the relation between motives and sectors is needed):

Table 1: Interaction between motives and sectors

	MARKET SEEKING	RESOURCE SEEKING	EFFICIENCY SEEKING	STRATEGIC ASSET SEEKING (mostly in hihg-tech)
PRIMARY SECTOR				
SECONDARY SECTOR				
TERTIARY SECTOR				

Source: Prepared by the author with information from Benito (2015)

Figure 1: Graphic representation of the interaction between industry and motives in the generation of spillovers



Source: Prepared by the author

2.3. Intermediate Units

Another part of the literature is concerned about the nationality of origin of the FDI; Javorcick and Spatareanu (2011) wonder if there are ownership advantages related to the nationality of origin affecting the generation of spillovers. They demonstrate that when FDI come from a country where host country has preferential trade agreements we would expect less potential for spillovers since they will source mainly intermediate inputs from abroad (therefore building less linkages inside the host country).

On the other hand, Eapen (2012) posits that “ties with foreign firms reduce the constraints that domestic firms usually face in searching for and transferring in foreign technologies.” Even though Eapen (2012) refers to informal ties, there are works that show that prior (formal or informal) ties can

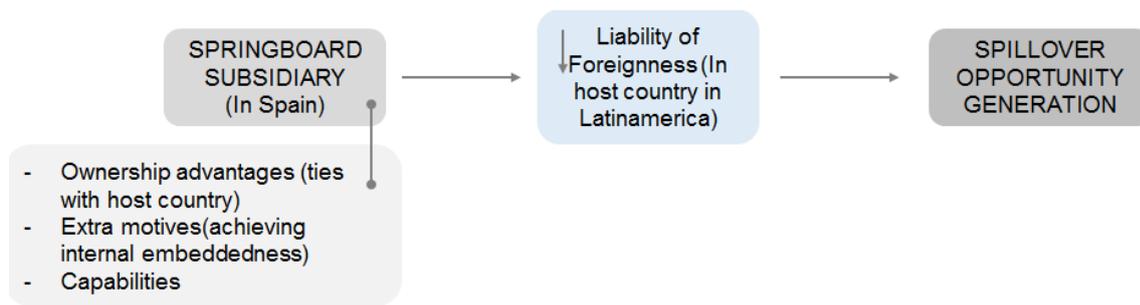
accelerate the subsidiary embeddedness in the host country (Makino and Tsang, 2011) leading this to linkage opportunities.

Another important question is the internal origin of the FDI: this means, from where, inside the MNE, the FDI is coming. To clarify this novel approach we have to focus first in the regionalization process that the globalization has caused and which is affecting the MNE structures (Rugman and Verbeke, 2008). The search for a regional fit has shaped the role of headquarters; they never again are found in a single location but its activities are spatially distributed within the system adapting to changing information processes (Piekkari et al, 2010).

But matching this structure and having regional headquarters does not mean having a regional strategy per se (Ghemawat, 2005). Even some authors do not distinguish between dedicated regional headquarters and local subsidiaries that have regional responsibilities (Alfoldi et al, 2012). Within this regard some authors say that subsidiaries with assigned headquarters responsibilities or Regional Management Mandates (Alfoldi et al, 2012) are a complex phenomenon which is yet to be explored in the literature. Some of this units have been identify but we still lack a deeper analysis and classification about which of the headquarters functions and tasks may be perform by operating subsidiaries (Alfoldi et al, 2012).

In this work we are interested in those intermediate units that have an investment mandate: on the one hand the origin of the FDI never again is the origin of the parent (at most the origin of the FDI is a mix between the origin of the headquarter and the origin of the intermediate unit). On the other hand, the reasons why the headquarter is delegating this activity matters. Headquarters with bounded rationality (Ciabuschi et al, 2011) perceive that a concrete unit has a concrete knowledge to better carry out an investment. The literature has identify one specific case of intermediate unit managing investments outside its home region that is very appropriate for our analysis: the Springboard subsidiary (Pla-Barber and Camps, 2011). Specifically the Springboard subsidiary offer the headquarter to enter a different and unfamiliar geography (but no so for the subsidiary) helping the parent to overcome faster the liability of regional foreignness in culturally and institutionally distant countries (Asmussen and Goerzen, 2013). This subsidiary is contextualized in this study as a Spanish subsidiary with an European parent entering Latin-American markets.

Figure 2: How the Springboard subsidiary works

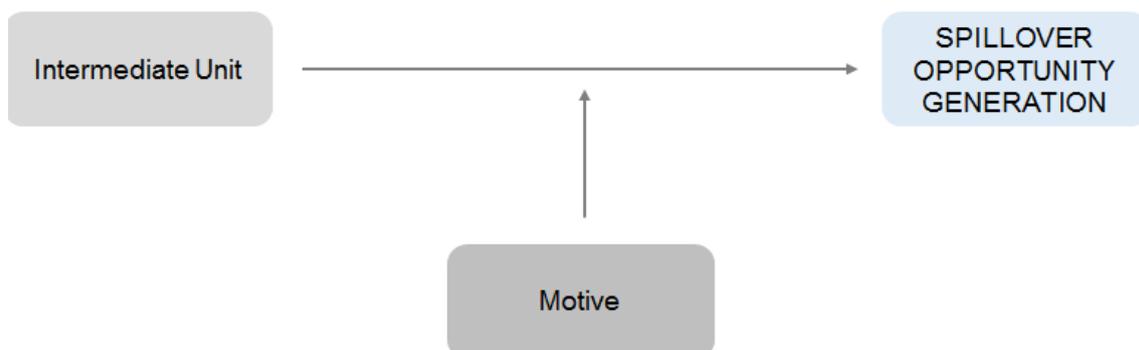


Source: Prepared by the author

In our work, the intermediate unit is an antecedent of the potential creation of spillovers. The reasons are twofold: the better knowledge the intermediate unit is supposed to have of the host country (therefore better overcoming the liability of foreignness (Pla-Barber et al, 2015) leading to a faster creation of opportunities for linkages). The other reason is the extra motives that the investor subsidiary has (based on internal context, for instance achieving a position inside the MNE (Birkinshaw and Fry, 1998)). Here we also deal with the achievement of internal embeddedness that the subsidiary has to face. The “official motive” is thus, moderating this effect..

Thus, responding to Meyer and Sinani’s (2009) question (“does globalization enhances or depresses spillovers?”) we postulate that the regionalization and the truncation of global value chain are leading multinationals to fragment their subsidiaries but also their headquarters leading to units with new responsibilities and benefiting from their better local knowledge. We need therefore new approaches when studying spillovers and also internal embeddedness in the MNC.

Figure 3: Interaction between motivations and intermediate units



Source: Prepared by the author

3. GENERAL OBJECTIVE

To study why not all FDI is equal and operationalize the influence that the investor (the MNE) has, through this capital flow, on the Spillover generation and spillovers effects in the host country.

3.1. Specific Objectives

1. How the motives of the FDI, as Dunning classified them, influence the potential generation of spillovers.
2. The moderating role of the industry between the motive for FDI and the potential for spillover effect.
3. What is the influence of the intermediate units in this relation? Are they adding motives or intensifying the relation between the motive and the potential spillover generation?
4. What are the consequences for internal embeddedness when introducing intermediate units?

4. METHODOLOGY

4.1. Data

The data to test our model is going to be gathered through questioners. First we need to identify the sample of Springboard subsidiaries investing in Latin-American (as example of intermediate units). In line with Meyer and Sinani (2009) there is a lack of understanding in the literature of whether and how the generation of spillovers are affected by the specific context, because most of the studies are single-country studies. A novelty of our work is that it is focused in a one origin FDI sample while multiple host country in which measuring the effect. This will allow us to control for the specific context impact.

Through ORBIS we will search for those Spanish subsidiaries, owned by (non- Spanish) MNE (more than 50%) with at least one subsidiary in Latin America (Owned by the Springboard at least at the 25%) (Pla-Barber and Villar, 2014). After is planned to send a questionnaire to find out the information.

4.2. Measures

Dependent variable

Spillovers or potential for spillover creation are difficult to measure due to the intangibility of the output. As Schmidt and Sofka (2009) pointed out knowledge flows leave hardly any paper trail. Depending on the proxies available the literature has used different measures. Table 2 collects some of them:

Table 2: Traditional an new proxies for measuring spillovers

TRADITIONAL MEASURES	NEW APPROACHES
var. Productivity of local firms	linkages creation
cluster generation/agglomeration	quality of linkages
incr. Local innovation	incr. Of subsidiary embeddedness
incr. Local employment	foreign subsidiary market strategy
var. intensity of local competitiveness	institutional changes
incr. Openness of the economy	reduction of liability of foreignness
var. Technological gap	
var. Dinamism of business climate	
creation of new firms	
inward FDI presence in the industry	
demonstration effects	
changes in patent citation	

Source: prepared by the author with information from Perri and Peruffo (2014)

It is important studying in deep how to measure spillovers because of the bias that proxy variables have. For instance each industry would have a different proxy which measurement fits better.

Independent variable

Motives: Cuervo-Cazurra and Narula (2015) say that usually firms are unable or unwilling to divulge what their true motives (in the sense of the academic classification) are and that they can show mixed purposes. Therefore, to identify the motive, we will ask specifically in the questionnaire but after we will triangulate the information with secondary data. We will base on the Dunning’s four motives classification (1988).

Industry: industry is a discrete variable to identify the sector in which the firms operate. A possible classification is the one digit SIC code (Makino and Tsang, 2011).

Intermediate Unit: is a dummy variable to identify whether the investor is conscious that is an intermediate unit or not (thus expecting different intensity in the intervention and the initiatives leading the investment).

Control

We would add control variables related to host country to control for the context (absorptive capacity, technology gap, existence of trade agreements, development of institutions, research institutions, Inward FDI programs, clusters...) and distance and other ties variables (Makino and Tsang, 2011)

To study the relationship between motives and industry the approach would be exploratory since there is not much literature on this. For the entire model the regression analysis will be used.

5. RESULTS AND CONTRIBUTIONS

We expect higher levels of spillovers when the motives are more “market or institutions” oriented (for example market seeking). The reason is the higher number of linkages and interactions that will be generated. We also expect a higher intensity when manufacturing industries and services. The contextual variables here will be very important. Finally, we expect an intensification of the relation between motives and spillovers when the origin of the FDI is from an intermediate unit. We also count on a faster overcoming of the liability of foreignness for the subsidiary due to the extra-motives and the need of internal embeddedness of the units.

This work contributes to understand how MNE elements of the FDI influence the effect in the host country. Specifically how motives shape this effect.

Scholars: help understanding questions like:

- How globalization shape spillovers effects?
- How MNE elements and decisions of the MNE influence spillovers effect (IB point of view).
- How different contexts (different countries in same region) affect the measuring of the spillovers effect?
- How internal MNE structures can influences external embeddedness of an affiliate.
- How the internal embeddedness is addressed by the units.

Managers:

- How accelerating external embeddedness of a new investment through using intermediate units with higher knowledge of a market.
- An example of overcoming faster the liability of foreignness.
- Making motives clear for FDI in order to understand better the effects.

Policy Makers:

- Which type of FDI (based on the motive, the industry and the internal structure of the MNE) is going to cause higher probabilities of spillover effects.
- Taking this into account in order to design better FDI attraction policies.
- Understanding that subsidiary embeddedness is important for creating spillovers and consider including this element when designing policies.

- If possible, selecting FDI by origin whenever significant.

Focusing policies on those types of investment that are going to generate better results for the local environment

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