


# Chapter 10

## Are Foreign Subsidiaries Cooperating for Innovation With Local Partners? Evidence From the Spanish ICT Sector

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### **ABSTRACT**

*In this chapter, a sample of firms active in the Spanish information and communication technology sector during 2003-2014 is analyzed to assess whether foreign subsidiaries are more prone than domestic firms to cooperate for innovation with local partners and ascertain which type of partners they prefer. Results of an econometric model show that foreign subsidiaries are more likely than unaffiliated domestic firms to cooperate for innovation with local partners but not more likely than domestic business groups, even when the size of the firm, the obstacles it faces to innovate, and other factors that may influence cooperation are all controlled. Statistical tests show that foreign subsidiaries prefer partnerships across the value chain. This preference is compared to that of domestic companies.*

### **INTRODUCTION**

Worldwide competition has increased both between multinational enterprises (MNEs), and between foreign MNEs and large domestic groups and native MNEs that have appeared even in Southern European countries and in emerging economies. In this panorama of increased competition, the ability to launch new products into the market and to implement new industrial processes constitutes a major advantage. However, the alleged technological superiority of MNEs over domestic firms has been increasingly

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contested, at least concerning European host countries (Molero & Heijs, 2002; Dachs, Ebersberger, & Lööf, 2008). At the same time, investment restrictions, as measured by the Economic Freedom Index, are increasing worldwide, and interests supporting globalization are currently weakening in many countries (Witt, 2019; Sauvart, 2009). Moreover, governments are legitimately seeking to increase the contribution of foreign direct investment (FDI) into the host economy. The idea that, from the point of view of the host country, FDI varies in its “desirability” (sic) is not new (Enderwick, 2005). However, this idea is increasingly being put into practice, and certain capacities of the foreign subsidiary (FSub), such as the potential for transferring technology, are becoming especially targeted<sup>1</sup>. The new international landscape is likely to make governments more selective than in the past regarding the types of FDI to be supported. Actually, governments have clearly stated their interest in attracting FDI in R&D since it is often believed that foreign firms may be a source of up-to-date technology for host countries (Guimón, 2009).

In the authors’ view, the participation of FSubs in local cooperative<sup>2</sup> projects deserves to be studied since it is an arrangement likely to conciliate the interests of host countries and foreign MNEs in an increasingly complex international panorama. On the one hand, technology transfers are facilitated when FSubs build local linkages (for reviews of the literature, see Rama, 2009) and local cooperation for innovation (LCI)<sup>3</sup> constitutes one of such knowledge linkages. On the other hand, empirical research suggests that when foreign companies are able to engage in local knowledge networks, they tend to become more innovative (Almeida & Phene, 2004; Álvarez & Cantwell, 2011; Fernández Sastre, 2012). However, a wide range of situations can actually restrict the local embeddedness of FSubs, which may become enclaves within the host country, with little local interaction (Ebersberger & Herstad, 2012; Phelps, 1993). High transaction costs may impede the local embeddedness of FSubs and, hence, limit their collaboration with local networks of innovators. Consequently, research on this topic may be especially useful, not only to policy-makers, who need to better understand the relationship between innovation and FDI, but also to managers.

Mostly based on evidence provided by the Community Innovation Survey (CIS) of the European Union (EU), previous studies have offered major insights into the relationship between foreign ownership and LCI. However, it remains uncertain whether FSubs are able to create local cooperative linkages in the same way as do domestic firms, since research results remain inconclusive. In the authors’ view, certain aspects of the question deserve further analysis. Firstly, little is known about the opportunities for LCI encountered by foreign MNEs in Southern European countries or in emerging economies, which are often principal receivers of FDI, since most previous analyses focus on highly industrialized countries. Secondly, sectoral quantitative studies are rare in this literature, despite the fact that these studies have the advantage of providing a more accurate picture than cross-sectional studies since problems of unobserved heterogeneity are reduced in this case. Moreover, local cooperative behaviour is influenced by characteristics of the foreign firm, such as its technological level and its *line of business* (Dachs et al., 2008; Holl & Rama, 2014; Jaklič, Damijan, Rojec, & Kunčič, 2014; Manolopoulos, Papanastassiou, & Pearce, 2005; Santangelo, 2009; Zhang et al., 2018). As a consequence, within the same host country, the cooperative arrangements of FSubs may differ by sector (Ebersberger et al., 2011; García-Sánchez et al., 2016; Guimón & Salazar-Elena, 2015). Finally, as noted by Williams & Ecker’s (2011) review of the literature, very little is known regarding the types of local actors of the highest importance for FSubs since the majority of studies on foreign ownership and LCI analyse aggregated data.

This chapter attempts to contribute towards filling the aforementioned gaps in the literature. Firstly, it analyses the relationship between foreign ownership and LCI in a Southern European country (Spain) while most previous studies focus on highly industrialised countries. Secondly, it studies cooperation

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