

ROLE OF MULTINATIONALS IN THE GLOBALIZATION OF INNOVATION

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## **Introduction**

In the current era that is dominated by increased technological use, global interconnectedness, shifting demographics and intensified competition among global business ventures, innovation is the main and primary source that can spur growth and help organizations to achieve competitive advantage (Nobel & Birkinshav, 1998). Multinational corporations have and continue to play significant role in global innovation due to spillover from home countries to various host countries around the globe. Globalization refers to the integration of the world economy through the movement of goods and services, capital, technology and labour. Similarly, Archibugi and Michiel (1995) define globalization as the intensification of worldwide social relations which link distant localities in ways that local happenings are shaped by events occurring miles away and vice versa.

Innovation refers to the embodiment, combination or synthesis of knowledge in original, relevant, valued new products, processes or services. Innovation is the primary sources of growth most organizations (Nobel & Birkinshav, 1998). Multinational corporations continue to promote global innovation through dispersion of knowledge to various subsidiaries located around the world. Due to intense competition for best ideas, global firms are willing to spend more funds on research and development so as to achieve a competitive advantage over other rival firms. This paper examines the role of multinational corporations in the globalization of innovation.

## **Discussion**

With the growing globalization of business enterprises, innovation activities are also increasingly becoming more global due to the dispersion and activities of multinational firms around the globe. Multinational corporations rely on innovation for growth and sustainability. In the past decades, multinational corporations have developed innovation networks across the globe and shared knowledge among different partners and subsidiaries with a view of opening, adapting and exploiting new market opportunities (Sood, 2009). Multinational corporations have played significant roles in enhancing global innovation. This can be attributed to the global intensification of Research and Development (R&D) that multinational corporations have dispersed and carried out in various countries around the globe.

### ***Research and Development***

Recent research surveys have given evidence that multinational corporations usually undertake between 10 percent and 40 percent of their research and development activities outside their home countries (Heidenreich, 2012). Similarly, research has also suggested that multinational firms are spending significant amount and share of their money and research and development outside their home countries. For instance, in 2008, top 80 United States corporate research and development spenders used US\$ 80.1 billion of their \$ 141 billion research and development funds outside U.S while their counterparts from European Union spent \$ 51.4 billion of their \$117 billion R&D funds outside Europe (Jaruzelski & Dehoff, 2008). The above figures are further buttressed by recent research findings which indicated that 91 percent of multinational firms spend their research and development funds conducting innovation activities outside locations in which they are headquartered.

Developing and developed countries continue to benefit from research and development internationalization through inward foreign direct investment. Research and development activities of foreign multinational corporations serve as a crucial mode for technology transfer and the creation of technology (Michael & Bergfeld, 2009). Although multinational corporations usually undertake international research and development due to the demands of the host country or work adaptation, evidence has shown that they are active contributors to the global innovation effort. Strategic alliances and acquisition of existing research and development laboratories and establishment of green field research and development investment in host countries is a common global business strategies that have contributed to global innovation (Wolfmay, et al., 2013).

### ***Foreign Direct Investment***

Multinational corporations or enterprises are the primary source of foreign direct investments. Foreign direct investments have spurred innovation in various global or host countries in sectors such as the pharmaceuticals or biotechnology, automotive, information technology and electronic or electrical equipment sectors (Wolfmayr, et al., 2013). Currently, global research and development and innovation are extensively carried out by multinational companies. Multinational corporations have and will in the foreseeable future determine the global innovation landscape by continued internationalization of their production, research and development and marketing activities (Heidenreich, 2012).

Multinational enterprises from more developed countries such as the United States, European Union and Japan have contributed to foreign direct investment in host countries (usually less developed or emerging countries). National economies are currently developing policies that are aimed at attracting foreign direct investment from foreign firms. Similarly, most

governments provide enabling environment and infrastructure that is conducive to research and development activities of foreign and national enterprises. Thereafter, foreign firms establish their enterprises in host countries and in turn share their research and development activities and sophisticated technologies with national partners and enterprises (Mattes,2010). This process not only enables the transfer of technology but also leads to the absorption and creation of other technologies thereby resulting in innovation.

Consequently, various national governments have established relevant laws, regulations and systems, strengthened supervision over enterprises, improved intermediary services for agencies and developed urban infrastructure and talent policies that have contributed to the establishment of international research and development hubs in the countries (Jaruzelski & Dehoff, 2008). The establishment of such frameworks and healthy and orderly environment has further bridged the gap between local companies and foreign multinational enterprises to attract other multinational enterprises to invest in the respect countries (Boutellier, Gassmann, & Zedtwitz, 2008). Multinational firms are the major global generators of innovation as a result of research and development and innovative activities that are carried in various home and host countries.

The investments that multinational corporations channel to host countries for the progress and sustainability of enterprises have played integral role in promoting global innovation. Due to availability of funds and existence of internal resources, multinational corporations find it easy to innovate and grow outside their home countries (Mattes, 2009). As highlighted in the preceding paragraphs, multinational corporations have committed substantial research and development investments overseas and they continue to decentralize and disperse their research and development activities that were conventionally restricted to their respective headquarters. Due

to the critical role that multinational firms play in relation to research and development investment, various innovation activities continue to be globalized (Archibugi & Michie, 1995).

### ***Knowledge Transformation***

The dispersion of knowledge in international setting as carried out by multinational corporations present increased opportunity and greater advantage of international growth. Multinational firms have created various global innovation networks through collaboration and interaction with different organizations and companies outside their home areas thereby creating new knowledge (Reddy, 2010). Due to knowledge sharing and transformation, the global innovation networks that have been established by different multinational firms have expanded their geographical locations. Multinational corporations are currently the main drivers of global innovation due to access and advanced knowledge creation, adoption and sharing. Multinational firms have also enhanced global innovation collaboration through knowledge sharing that eventually resulting in strategic alliances and global technological collaborations (Archibugi & Michie, 1995).

### **Conclusion**

It is evident that multinational corporations play integral role in promoting global innovations through investments and intensification of research and development efforts. The innovative activity, capacity and strength of multinational corporations are evidenced by massive investments and research and development. Innovative multinational enterprises play pivotal role in raising the growth potential of national economies around the world. Multinational corporations are likely to continue to significantly impact global innovation. Particularly with the increasing national government policies and regulations that make them more attractive to research and development activities and foreign direct investment from overseas.

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