

# Innovative Capability in MNC Subsidiaries: Evidence from a Panel Study in Transition Economies

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## Abstract:

This study is motivated by the argument the spatial determinants of EU MNC subsidiary innovation in China, using period of last 10 years unbalanced panel data analysis. It bridges Resource Based theory (firm resource and capability), Transaction cost theory (of Joint venture with local patterns: State-, collective-, corporate-, and privately owned firms) and Institutional based view (economic and political Institutional variables) different theoretical approaches and stream of research into the paper. By applying the econometric analyses techniques to a sample of 697 EU innovative subsidiaries to test the presence of agglomeration effect of past innovation activities. The results show MNCs subsidiary's innovation is positively related to JV with domestic collective –owned firms, firm's size and export intensity. However, some other factors such as labour training and rule of law reveal unexpected results. The paper offers three primary contributions. First, it focuses on MNE subsidiary innovation strategy fills an important gap in the International Business literature (ongoing literature on MNCs innovation). Second, by following, it presents an analysis places as much emphasis on informal institutions (such as Guaxi marketing and values/ culture ) as it does on formal institutions (such as the rule of law, exchange rate and host openness and IPR standards) as a source of uncertainty confronting firms. Third, it presents an integrative framework combining firm-level adaptation and creativity by MNEs subsidiary and their host institutional change at the macro level. The findings have important implications for theory, practitioners and policy-making .This study contributes to the literature on the evolution of MNCs by exploring developed foreign subsidiaries innovation activities determinants in emerging market.

**Keywords:** resource based view, transaction cost view, institutional based view, emerging economies, MNC subsidiary, Innovation performance

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