Multinationals, Innovation and Global Value Chains

INTERNATIONAL CONFERENCE
MNCs, Global Value Chains and Social Regulations
MONTREAL, CANADA, 6-8 June 2001

Jorge Carrillo
Redi Gomis
Ismael Plascencia
Objetives

- To explore and analyze the way multinationals operating in Mexico are inserted into the global value chain, especially inside the scope of their respective corporations.

- To make inferences from the characteristics of this insertion, about their opportunities in terms of innovation.
Basic theoretical ideas behind

- The opportunities and challenges arising from the GVC phenomenon are varied and their effects are not always homogeneous. They will depend, in part, on the governance structure of the GVC in which firms are embedded [Kosacoff y López, 2008].
- Under hierarchical schemes, where the leaders focus on knowledge-intensive activities, exchange of intangible assets to encourage learning processes in the chain will probably be limited. In contrast, horizontal structures are more likely to cooperate in relations between firms, more viable and functional upgrading processes (Humphrey y Schmitz, 2000).
- It is more likely that firms in developing countries tend to be inserted into strings with hierarchical structures [Humphrey y Schmitz, 2000].
Governance in GVC

Market
- Horizontal
- Flexible networks

Firm
- Vertical
- Hierarchical
Data: mexican INTREPID set

- **GVC integration**
  - Amount or degree of integration
  - Place un GVC:
    - Mandates
    - Production specialization
    - Market orientation
  - Discretion

- **Innovation**
  - I&D and GVC
Degree of trade integration (within the MNC)

- Do not buy or sell (Totally disintegrated): 11%
- Buy or sell (Partially disintegrated): 30%
- Buy and sell (Totally integrated): 59%
Resto del mundo:
- No compra ni vende: 8%
- Vende pero no compra: 32%
- Compra pero no vende: 5%
- Compra y vende: 56%

Estados Unidos:
- No compra ni vende: 7%
- Vende pero no compra: 21%
- Compra pero no vende: 6%
- Compra y vende: 66%

México:
- No compra ni vende: 31%
- Vende pero no compra: 23%
- Compra pero no vende: 0%
- Compra y vende: 46%
Mandates or specific orders for goods or services

- Yes: 87.7%
- No: 12.3%
Mandates or specific orders for goods or services

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>88%</td>
<td>12%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
</tr>
<tr>
<td>60%</td>
</tr>
</tbody>
</table>
Degree of specialization of production

- A single good or service has more than 70 percent of sales: 60%
- No good or service has more than 70 percent of sales: 40%
Main products or services

- Adapted to the national market: 12%
- Adapted to different regions of the world, but within them standardized: 41%
- Globally standardized: 47%

Adapted to the national market
Adapted to different regions of the world, but within them standardized
Globally standardized
Market Strategy: Where are sales mainly oriented?

- National (Mexico): 39.3%
- Regional (NAFTA): 53.8%
- Global: 6.9%
Resto del mundo
- Mercado interno: 38%
- Mercado regional: 47%
- Mercado global: 15%

Estados Unidos
- Mercado interno: 25%
- Mercado regional: 74%
- Mercado global: 2%

México
- Mercado interno: 80%
- Mercado regional: 16%
- Mercado global: 4%
Degree of discretion: the ability to define its own policies (foreign)

- Low: 25.4%
- Medium: 58.7%
- High: 15.9%
Discretion construction

- p62- ¿Qué tanta capacidad se tienen en las Operaciones Mexicanas para la implementación de políticas en las siguientes áreas?

- Capacity to define own policy
  1 Null 2 Low 3 Medium 4 High 5 Full

- A. Major technological changes
- B. Suppliers Selection
- C. Selection of market niches
Research and Development within the MNC

The research and development is done in other parts of the multinational

31%  19%  50%

The research and development that is done here is used in other parts of the multinational

44%  24%  32%

Agree  Indifferent  Disagree
Final thoughts

- Overview from the data as to the GVC:
  - High integration in the intra corporate global value chain
  - Low-status position in these strings: mandates specific productive, highly specialized production, standardized products
  - Guidance to external markets, but regional at global level
  - Import of I&D rather than produce it or export it
Final thoughts

- This suggests that the GVS to which most MNCs are built in Mexico, are of a hierarchical type.
- So, following ideas of Kosacoff and López, can be assumed that dynamics associated with innovation are mainly outside Mexico.
- A minority group of companies: that are not integrated, that there is no clear mandates, offers a wide range of products and services, enjoys a high degree of autonomy, perform R & D. Are they the same? Are embedded in less hierarchical CGV?
What’s Next?

- Refine the construction of indicators for better analysis
- Explore from theoretically and empirically material, for a better understanding of the relationship between innovation in operating countries and networking structures among MNCs in Mexico