



**CATÓLICA
LISBON**
BUSINESS & ECONOMICS

**HOW DOES A GLOBAL STRATEGY NEGATIVELY
INFLUENCE INNOVATION TRANSFER IN
MULTINATIONAL CORPORATIONS?**

The Case of Pierre Fabre Innovation Transfer

WRITTEN BY:

André Gonçalo Machado Antunes

Student Number: 152116050

SUPERVISED BY:

Laure Leglise

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Abstract - English

Title: How does a global strategy negatively influence innovation transfer in multinational corporations.

Author: André Gonçalo Machado Antunes

The purpose of this thesis is to fill the gap in the literature regarding cross-border innovation transfers in internationalized firms. More specifically, “*How does a global strategy negatively influence innovation transfer in multinational corporations*”.

To address this question a qualitative research was conducted using a case study method, applied to a multinational corporation (MNC) in an innovative industry. Interviews were the primary source of data for the research, while Another cause that influenced the process failure was also found, but it was not possible to establish a relation with the firm global strategy.

The findings of this research show that global strategy does influence the innovation transfer process in MNCs. The 3 main influencers identified during the case study were: (1) pressure to accept innovation transfers; (2) global strategy ahead of local needs; (3) lack of local adaptation. There was also find other cause that influenced the process failure, but it was not possible to establish a relation with the firm global strategy.

Key-words: Innovation transfer; global strategy; failure causes; multinational corporation.

Abstract - Portuguese

Título: Como a estratégia global de uma corporação multinacional influencia negativamente a transferência de inovações dentro da empresa

Autor: André Gonçalo Machado Antunes

O objetivo desta tese é preencher a lacuna na literatura em relação a transferências de inovação além-fronteiras em empresas internacionalizadas. Mais especificamente, “*como a estratégia global de uma corporação multinacional influencia negativamente a transferência de inovações dentro da empresa*”.

Para responder a esta questão foi conduzido uma análise qualitativa, usando como método um caso de estudo aplicado a uma corporação multinacional (MNC) numa indústria inovadora. Entrevistas foram a fonte primária de informação para esta pesquisa, sendo a documentação externa e interna providenciada, a fonte secundária.

Os resultados desta pesquisa mostram que a estratégia global influencia o processo de transferência de inovação em MNCs. Os 3 principais influenciadores identificados durante o estudo foram: (1) pressão para aceitar a transferência de inovação; (2) estratégia Global sobrepõe-se às necessidades dos mercados locais; (3) falta de adaptação ao mercado local. Foi também encontrada uma outra causa que influenciou o insucesso no processo de transferência, embora não tenha sido possível estabelecer uma ligação com a estratégia global da empresa.

Palavras-chave: Transferência de inovação; estratégia global; causa de insucesso; corporação multinacional.

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1| Introduction

Internationalization is a common and well-known concept. Actually, it is so influent that many firms have already changed from a multi-domestic or domestic approach to a global strategy approach (Malhotra, Agarwal, & Ulgado, 2003). In today's business world, not only big national firms plan and set internationalization strategies. Many small and medium enterprises (SME) were already thinking about internationalization when they were founded (Coviello & McAuley, 1999; Oviatt & McDougall, 1997). Therefore, SME soon embrace the challenge of become a MNC, giving evidence to the importance of the internationalization topic.

A MNC, a firm with an international presence, requires a cross-border interaction among the business units (Zellmer-Bruhn & Gibson, 2006), and they are even considered by some authors as social communities, due the use of their relational structure to transfer skills and capabilities (Kogut & Zander, 1993). This thesis will focus on the innovation transfer type of interaction. More specifically, the extent to which a MNC global strategy has a negative influence in innovation transfer, lastly leading to a transfer failure. The research question driving this research and analysis will be: *"How does a global strategy negatively influence innovation transfer in multinational corporation?"*. In order to pursue this research, we used a qualitative methodology, more specifically a case study. The company chosen for this case study is present in innovative industries (pharmaceutical and cosmetics) with relevant R&D investments. We will be analysing the Pierre Fabre firm.

In today business world MNCs cannot have separate strategies for each subsidiary, but an interdependent system that integrates the different operations and strategies, thus being a global strategy (Svensson, 2001). Consequently, the MNC global strategy will influence the network organization and links. Dhanaraj and Parkhe (2006) elaborates on this topic and states that this network should be used in the best interest of innovation mobility.

Transfer of innovation or knowledge is not a simple process. This process, primarily requires a motivated sender and receiver (Noorderhaven & Harzing, 2009). Costs can also be associated with the transfer process (D. J. Teece, 1977). And finally, several different barriers in the transfer process can be found (Gupta & Govindarajan, 2000).

There are 3 gaps on the literature that motivated our research. The first gap is the extensive focus on the knowledge transfer topic, therefore little attention is given to innovation transfer. Furthermore, when studying innovation transfer the author's research falls on the headquarters (HQ) involvement and resource allocation (Dellestrand, 2010; Dellestrand & Kappen, 2011;

Lind & Kang, 2017; Miao, Zeng, & Lee, 2016). The second gap identified is the literature focus on transfer occurrence and frequency, rather than its actual performance and success (Lind & Kang, 2017). The third gap identified is the inexistent research relating global strategy to innovation transfer.

This topic is also very interesting because it combines two relevant and important themes in the business context. First, the internationalization and global strategy topic, taking MNCs as ground for it. And second, the innovation topic, that has gained exponential importance due marketplaces dynamic and MNCs necessity to respond to this constant change (Baregheh, Rowley, & Sambrook, 2009). This thesis, by exploring the interaction of these 2 topics, is also relevant to managers, since they are responsible for the MNC global strategy and it is of their best interest to enhance innovation and its internal transferability.

This thesis is divided in 6 sections. The first section is the literature review, where we will unfold the past literature in three main topics, to present it in a structures and logic way to the reader.

The first part of the literature review introduces the ground that we will be working on, multinational corporations. We present a definition for multinational corporations (Markusen, 1995) and we approach the concepts related with it that will be also crucial during our thesis, such as subsidiary and business unit. Parallel to this, we explore the globalization phenomenon and the MNC global strategy. The second part of the literature review is intended to explain the connection between knowledge and innovation, as well as define both terms. These two concepts are strongly related (Popadiuk & Choo, 2006) and is important to understand the relation between them. Finally, the third part of our literature review is dedicated to the transfer process, where we present the sender-receiver model, several barriers to the transfer and the involvement of headquarters.

The second section is dedicated to the methodology adopted during our research. We present the reasoning of using qualitative research and pursuing the case study method, and how it was designed. Further on we explain how data was collected and finally how it was analysed for this thesis purpose.

In the third section, we present our case study that contains 3 sub-sections: (1) company presentation and overview, (2) Pierre Fabre approach towards innovation, (3) the Primalba Nourisson innovation transfer case.

The fourth section presents the case study findings and a brief discussion of them. We analyse the case study results that provides the content to answer our research question.

Finally, the last section of this thesis includes the main conclusions reached, our study limitations and future research topics that might be interested to follow.

2| Literature review

The literature review will serve as a structurer, helping to understand the context of this research and the gap on the literature identified to conduct this thesis. We begin by introducing MNCs, globalization and global strategy. Next, we explore knowledge and innovation, understanding the link between them. Afterwards, we examine the transfer process and main barriers. Finally, we will study the Headquarters role during the transfer process and their influence in resource allocation is studied.

2.1| Multinational corporation (MNC)

In order to understand the ground that we will be working in, it is important to introduce the concept of multinational corporation. Multinationals corporations (MNC) are a type of firm that have the characteristic of being international. Zellmer-Bruhn and Gibson (2006) present MNC by saying that they operate in multiple countries, having an interaction with different economies, cultures and institutions. Therefore, even by having a global strategy the MNC must adapt the subsidiaries to each reality and each country's local demands (Zellmer-Bruhn & Gibson, 2006). Subsidiaries will have different goals and orientations (Birkinshaw & Hood, 2000; Birkinshaw, Hood, & Jonsson, 1998), different governance mechanisms (Chang & Taylor, 1999) and different process and management practices (Roth & O'Donnell, 1996). Despite the definition by Zellmer-Bruhn (2006) being precise and simple, we will try to find a definition that better orientates our research.

In the literature we can find a definition of MNC, given by Markusen (1995). The author defines MNC as “*firms that engage in direct foreign investment, defined as investments in which the firm acquires a substantial controlling interest in a foreign firm or sets up a subsidiary in a foreign country*” (Markusen, 1995, p.170). In this definition, the reference to cross-border and internationalization is clear, but also the reference to the concept of subsidiary, which suits our research topics.

Through the definition presented by Markusen (1995), we can consider subsidiaries as an extension and representative of the firm business in a foreign country. Subsidiaries are responsible and have an active role in the strategy formulation and implementation in their local markets (Birkinshaw et al., 1998; Ghoshal & Bartlett, 1986; Gupta & Govindarajan, 1994; Hedlund, 1986). Regarding our thesis topic, it is important to mention the central role that subsidiaries have in the knowledge transfer. Subsidiaries enhance the creation of firm-specific

advantages and competitive advantage (Birkinshaw et al., 1998; Gupta & Govindarajan, 2000; Hansen & Løvå as, 2004; Phene & Almeida, 2008).

2.1.1| The globalization phenomenon

The globalization term first appears in 1951 in an English dictionary, but only emerged later in the 1990s. By that time it was used to describe the intensification of social relations across the globe (Steger, 2010). Different globalization definitions from varied decades, (Albrow & King, 1990; Daly, 1999; Knight, 2015) confirm that the term essence still remains and it focus on the social interactions across the globe.

A major driver and responsible agent for the appearance and uncontrolled growth of globalization was technology. Technology enabled to structure global pillars: communication, transport and travel; that open the way to the globalization phenomenon (Levitt, 1993). The result is what we observe today, a new commercial reality, a global market with standardized consumer products (Levitt, 1993).

In order to have a better understanding of the globalization concept we present some definitions. The first definition is given by Albrow and King (1990), that presents globalization as a process where all people are incorporated into a single world society, forming a global society. This definition gives us a more sociological perspective of the globalization concept. Although we want to look to the concept through a business lens, it helps to complement the concept.

A second definition is given by Knight (2015, p.3), referring to globalization as “*the flow of technology, economy, knowledge, people, values, and ideas across borders*”. It is an interesting broad definition that introduces various variables that foster the globalization phenomenon.

The last definition, presented by Daly (1999, p.31), says that “*globalization refers to global economic integration of many formerly, national economies into one global economy, mainly by free trade and free capital mobility, but also by easy or uncontrolled migration*”. This definition contemplates the mobility and cross-border trade across the globe. Also, we can see a clear link with the business and economic perspective which is relevant for our thesis, therefore this will be used as the globalization definition in our thesis.

We are now in condition of understand the importance of globalization in a MNC life. It is of major importance that a MNC takes into consideration the globalization phenomenon and at the same time adapt to the new global realities (Levitt, 1993). Levitt (1993) goes further and distinguishes two types of approaches towards the new global reality. The first is a global corporation where the MNC operates in a standardized way, making no distinction between

countries, selling “*the same things in the same way everywhere*” (Levitt, 1993, p.3). The second, Levitt (1993) describes as a multinational corporation, where the MNC adapts and adjusts its products and practices to each country. Even these are two extreme opposite approaches, that we rarely observe in the business world, which gives us a good illustration. During this thesis, we will be looking to MNCs as a global corporation.

2.1.2| The MNC global strategy

The global strategy term is considered the most used and least understood in the business context (Kanter & Dretler, 1998). Many authors have been researching on this topic and providing literature about it. Also, several conferences took place (New York, London and Tokyo) to discuss the global strategy topic and satisfy MNCs’ managers curiosity (Ghoshal, 1987).

As previously mentioned, firms can’t run away from the globalization phenomenon, and the same happens with the global strategy. Even firms with an insignificant portion of international sales, might have international suppliers and compete with international players in their home markets (Kanter & Dretler, 1998).

Now that we have understood the strong presence of the global strategy concept, we will look at some definitions and approaches. Kanter and Dretler (1998) refer to global strategy as an integrated thinking over all business aspects: suppliers, production, markets and competition. The author continues by adding that in a global strategy, the MNC focus is always in the international scale, even when operating in a subsidiary local market. This definition gives both a corporate and an operational or field perspective towards global strategy, making it a simple but complete definition. Lascu (1994) presents a definition similar to Kanter and Dretler (1998), saying that a global strategy is a complex effort towards managing a MNC in an integrated and world basis way, avoiding the secularization and isolation of subsidiaries.

Levitt (1993) defines global strategy, as previously mentioned, based on the standardization vision. “*According to him, the core of a global strategy [Levitt] lies in developing a standardized product to be produced and sold the same way throughout the world*” (Ghoshal, 1987, p.426). We can consider this approach a utopia or extreme vision, as usually MNCs don’t rely and commercialize a unique product. On the other hand, Hamel and Prahalad (1985) take an opposite way to Levitt’s (1993) approach. These two authors say that a global strategy is about having a broad product portfolio, creating synergies between the subsidiaries and establish a worldwide distribution network.

These are only some of the several approaches that MNC managers can choose from. From these definitions, we can understand the challenge of managing a MNC. Many ways and leadership styles can be adopted. However, it is common to all definitions that a MNC needs to face the globalization phenomenon and find an equilibrium between managing subsidiaries and its corporate strategy as a globalized firm.

As previously seen Leviitt (1993) and Hamel & Prahalad (1985) suggest two different approaches in the application of global strategy towards the transfer of products across the subsidiaries. During this thesis, we won't look exclusively to the product transfer but to innovation transfer and this global strategy application.

2.2| Knowledge and innovation

In this section, we define both knowledge and innovation and clarify the link and differences. We set a framework, according to previous researches, of relation between knowledge and innovation that is used to analyse our case study.

2.2.1| Knowledge

The concept of knowledge is applied in many fields and areas of studies. For this thesis, we look at the definitions related with the business and management field to get a more precise and accurate definition, regarding our research topic.

By simply going to the dictionary we can extract a definition of knowledge. The Oxford dictionary presents knowledge as what is acquired through practical or theoretical understanding of a subject, such as skills, information and facts ("knowledge | Definition of knowledge in English by Oxford Dictionaries," n.d.). On the other hand, Davenport and Prusak (1998) present another definition of this concept, saying that knowledge is a mix of experiences, information, expert insights and values that allow people to evaluate and incorporate new experiences and information.

We can see, in these two definitions, knowledge as an incorporation of several inputs (information, experiences, and other variables) from different sources of interaction with the environment.

For the purpose of this thesis, we will consider the definition from Davenport and Prusak (1998), which, in our opinion, is more complete. More recently other authors have also based their research in the Davenport and Prusak (1998) article about knowledge, connecting and relating it with multiple topics, such as knowledge sharing within MNC (Noorderhaven &

Harzing, 2009), knowledge management systems (Alavi & Leidner, 2001), knowledge management (Gold, Malhotra, & Segars, 2001), and others.

When applying the knowledge concept to the business context, more specifically to MNC, it is evident that knowledge must have an origin. There are two types of origins, internal and external. Each of the origins can be divided into three sources. The subsidiary level, the MNC headquarters and other MNC subsidiaries, constitute the internal origins of knowledge. Other firms in the host country (subsidiary location), other firms in the home country (headquarters location) and firms in other countries constitute the external origin of knowledge (Phene & Almeida, 2008).

Although knowledge is available in MNC, the access to it might be limited. Different business units or subsidiaries have different levels of access to knowledge (Tsai, 2001). Depending on the subsidiary position in the network and the absorptive capacity, knowledge access might be influenced, (Tsai, 2001). So, it is important to understand that not every subsidiary will have the same resources and capabilities.

Finally, regarding our research topic, we find on the literature, that knowledge is a fundamental strategic resource (Grant, 1996; McEvily & Chakravarthy, 2002; Noorderhaven & Harzing, 2009; Szulanski, 1996). Therefore, knowledge becomes responsible for the firm, hence MNC, competitive advantage. The appropriation of knowledge by itself doesn't constitute a competitive advantage, only the MNC ability to exploit and transfer it brings competitive advantage (Ambos & Ambos, 2009; Argote & Ingram, 2000; Dellestrand, 2010; Grant, 1996; Kogut & Zander, 1993). Applying the same principle of knowledge access, there will be different subsidiaries with different competitive advantage in their local markets.

2.2.2| Innovation

Similarly, to knowledge, several innovation definitions can be found. Some definitions are more precise, others broader but the concept seems to match. We will look for an innovation definition related to the topic of business and management, so we can have a more accurate relation with our research.

The OECD (Organization for Economic Co-operation and Development) defines innovation as “new products, business processes and organic changes that create wealth or social welfare”. Also in the same article from the Economist (“Something new under the sun,” 2007), Richard Lyons (Chief Learning Officer at Goldman Sachs) defines innovation in a condensed way, as “*fresh thinking that creates value*”.

The OECD Oslo Manual (2005) looks at innovation in a broader sense but with an accurate understanding of the term, defining it as “the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in-business practices, workplace organisation or external relations”. This same manual goes further on the topic and distinguishes four types of innovations: product innovations, process innovations, marketing innovations and organizational innovations. However, concerning our thesis we will focus on the product innovation.

As we can see, both definitions focus on the idea of creating something new. For this thesis we will adopt the OECD Oslo Manual (2005) definition, which allows to focus on the business context but also to understand the full extent of the concept.

Another perspective over innovation brings us other categorization for it. According to Plessis (2007) it is possible to distinguish between incremental and radical innovation. Incremental innovations are considered line extensions or modifications of the existing products. On the other hand, radical innovations are breakthrough and are even called “competence-destroyers”, as they make the existent skills and knowledge obsolete or redundant.

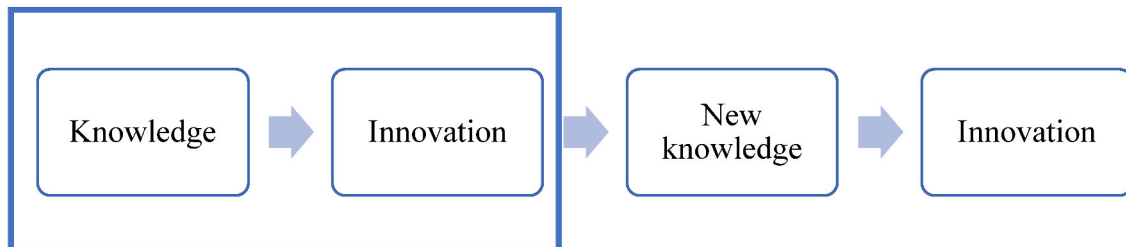
As knowledge, innovation is responsible for the MNC capacity to create value in the market, through competitive advantage. However, is crucial that MNC possess the ability to manage this innovation, otherwise it won't bring any competitive advantage, neither value creation, which makes the MNC alive and running (Dellestrand, 2010; Dhanaraj & Parkhe, 2006; Hitt, Hoskisson, Johnson, & Moesel, 1996; Mudambi, 2002).

2.2.3| Relation between knowledge and innovation

In the literature, the approach towards knowledge and innovation is very similar. Sometimes, when mentioned in the literature, there is not a clear differentiation, that is why Popadiuk and Choo (2006) dedicate their research to it. From both concepts' definitions, we can say that knowledge is contained in innovation. Through innovation new knowledge can be created. But knowledge is also required in order to create innovation (Harkema, 2003; Plessis, 2007). This suggests a two-side interaction between knowledge and innovation, where knowledge appears both as input and output of innovation (Phene & Almeida, 2008). From this, we can take that this interaction works like a cycle where knowledge leads to innovation, and innovation leads to new possible knowledge (Popadiuk & Choo, 2006; Utterback & Afuah, 1998). In this thesis, we will be concerned with the approach where knowledge leads to innovation (Figure 1), as

knowledge being the prime source that fuels the MNC innovation (Buckley & Carter, 1996; Noorderhaven & Harzing, 2009; Tsai, 2001).

Figure 1 – Interaction Between Knowledge & Innovation



Source: by the author

In this thesis we will anchor our innovation transfer process research in knowledge based theories, as many authors did in their innovation transfer research (Dellestrand, 2010; Dhanaraj & Parkhe, 2006; Lind & Kang, 2017; Miao et al., 2016; D. J. Teece, 1977). More specifically Dellestrand (2010), considers that innovation is as bearer of knowledge, intersecting Dhanaraj and Parkhe (2006, p.660) research, where innovation transfer is seen as “*knowledge mobility*”, meaning that in an innovation transfer knowledge is being transferred. Miao et al. (2016) often changes from knowledge to innovation when referring to the transfer process, therefore meeting Lind and Kang (2017, p.574) approach where “*knowledge transfer and innovation transfer will be used interchangeably*”.

During this research, we will be identifying the factors that influence the transfer process across subsidiaries in a MNC and observe the relation they have with the existence of firm global strategy.

2.3| The transfer process across subsidiaries

A transfer is not a simple process. First, it is important to note that knowledge or innovation transfer it is not just an act but is a process itself (Szulanski, 2000). It is not a single and static process, but dynamic and part of continuous learning and adaptation (Gilbert & Cordey-Hayes, 1996). We can use the example of General Motors to illustrate this difficulty, where the company faced serious challenges and constraints to transfer the manufacturing practices between their divisions (Kerwin & Woodruff, 1992).

Argote and Ingram (2000), define knowledge transfer as a process where a subsidiary or business unit (e.g. department, division, and others) is affected through the experience of other. For this thesis, we will use this framework but extend it to innovation. Consequently, an

innovation transfer is a process through which one MNC subsidiary is affected by an innovation received from another subsidiary.

Finally, the complexity of a transfer doesn't depend exclusively on the process and the efforts spent in it. The transfer complexity is direct proportional to the complexity of the innovation. The more complex is the innovation, the more complex the transfer (Dellestrand, 2010; Zander & Kogut, 1995).

2.3.1| Sender-receiver model

The sender-receiver model implies the presence of two actors in a transfer right from the start: a sender subsidiary, which holds the innovation, and a receiving subsidiary, which will adopt the innovation. According to this model the success of a transfer doesn't rely only on the sender and receiver subsidiary, but also on the relation between them and characteristics of the innovation being transferred (Noorderhaven & Harzing, 2009). Noorderhaven and Harzing (2009) study exactly the influence of the relation between the sender and receiver subsidiary. Regarding their study, we can say that by having a healthy social relation between subsidiaries transfer flows quantity and quality is empowered.

2.3.2| Stages of a transfer process

It is common that a process goes through different stages until it is complete. The innovation transfer process is no different. These stages will help to unfold and have a detailed look at the transfer process. These phases have been introduced by Szulanski (1996) to study the transfer process of best practices

2.3.2.1| Initiation stage

In order to have a transfer process, there must be a need or an innovation that makes the actual situation unsatisfactory or just obsolete (Glaser, Abelson, & Garrison, 1983; Rogers & Shoemaker, 1983; Zaltman, Duncan, & Holbek, 1973). Therefore, the innovation will be used to satisfy the subsidiary's needs or to update their current situation (technology, process, product, and others). After identifying a need and/or a new potential solution (innovation), the fit of both and feasibility of the transfer must be analysed. This process might require months, depending on the complexity of the transfer, since gathering of all the information until it is evaluated (David J. Teece, 1976). The initiation stage is completed when a transfer decision is made, automatically moving to the next stage (Szulanski, 1996).

2.3.2.2| Implementation stage

After the transfer process is validated through a decision in the initiation stage, the implementation stage takes place. During the implementation stage, a tight social network is established between the sender and receiver subsidiary as part of preparation to the transfer (Buttolph, 1992, p. 508-509; Rice & Rogers, 1980, p. 464). Also, the needed resources will flow between the sender and receiver. The transfer process will be adapted, so the needs of the sender and receiver are met, as well as to avoid mistakes or problems during the transfer. When the conditions to proceed with the transfer are reunited, the process will naturally begin, by a knowledge flow between subsidiaries, until the receiver has all the knowledge on his side. The implementation stage is completed when the receiver subsidiary starts to use the innovation transferred (Szulanski, 1996).

2.3.2.3| Ramp-up stage

As previously mentioned a transfer is not an easy process, with several problems and barriers standing in the way (Gupta & Govindarajan, 2000). Even being well prepared, during the transfer process unexpected problems turn up. It is common that the receiver doesn't apply and use the innovation in the proper manner right from the beginning (Adler, 1990; Baloff, 1970; Chew, 1991; Chew, Leonard-Barton, & Bohn, 1991; Galbraith, 1990), therefore failing to achieve the innovation performance expectation. In the ramp-up stage, the receiver's task is to identify and resolve these problems and barriers that turn up during the use of the innovation. When the receiver handles the issues and improves the performance towards a satisfactory level, the ramp-up stage is completed and the receiver is able to move to the next stage (Szulanski, 1996).

2.3.2.4| Integration stage

The ramp-up stage might also take a while, until the knowledge received gets routinized. When a satisfactory level of using knowledge is achieved, the integration stage takes place. The integration stage is characterized by a routinized use of knowledge. During this stage, with the experience of working with the knowledge received, actions become typified, standardized and predictable. More than being routinized, knowledge becomes institutionalized as part of the subsidiary reality and systematic workflow (Szulanski, 1996).

2.3.3| Barriers/influencers in the transfer process

As previously mentioned, there are several barriers in the knowledge and innovation transfer process that might compromise the effectiveness and efficiency of it (Gupta & Govindarajan,

2000). The transfer process requires effort and support from different actors, specially from the subsidiaries involved directly in the transfer. In this topic, we will present several barriers that are suggested and found in the literature, in opposition to the innovation and knowledge transfer process. Not every barrier will have the same impact or influence on the transfer process, depending on the transfer characteristics different barriers might arise during the process.

2.3.3.1| Absorptive capacity

Different subsidiaries, in a MNC, have different learning capabilities. Tsai (2001) studies these learning capabilities according to the network position and absorptive capacity of the subsidiary.

The subsidiary's ability to recognize, assimilate and consequently use external information is called absorptive capacity (Phene & Almeida, 2008). In the sense of this thesis, we will focus on innovation and knowledge as the external type of information. In this context, subsidiaries with high absorptive capacity have an advantage, compared with other subsidiaries, in assimilating knowledge, to foster their competitive advantage and innovation capacity (Phene & Almeida, 2008; Tsai, 2001). Hence, it is safe to say that in order to generate useful outputs, the subsidiary must be able to capture inputs (knowledge and innovation).

The absorptive capacity results from a considerable knowledge gathering and an experienced investment process (pre-existing stock of knowledge). These give to the subsidiary solid capabilities, technology and knowledge that will sustain and support the knowledge transfer process, by developing the subsidiary's absorptive capacity (Mowery, Oxley, & Silverman, 1996; Szulanski, 1996; Tsai, 2001).

A knowledge transfer process, as we saw from the transfer process stages, is only successful when the knowledge received is properly captured and applied, hence generating benefits to the receiver subsidiary. So, the absorptive capacity is not restricted to the act of transferring knowledge, but it also influences the posteriori use of it (e.g. commercialization capacity, subsidiary performance improvement) (Cohen & Levinthal, 1990; Tsai, 2001).

Tsai (2001) concluded, that investing in a subsidiary absorptive capacity leads to an effective assimilation and use of knowledge. Furthermore, the absorptive capacity seriously affects the subsidiary innovation capability and performance. This suggests that the absorptive capacity, when not properly developed, represents a barrier to knowledge and innovation transfer.

2.3.3.2| Network position

A business unit of a MNC subsidiary is influenced by the position that occupies in the MNC network. Different positions lead to different knowledge access and stimulus to innovative activities. The more central the position in the network, the higher the chances of access and absorb strategic resources. These resources will then translate the business unit internal capacity to foster innovation (Tsai, 2001).

However, not every business unit has the same position in the network, and knowledge is not equally distributed through the network (Tsai, 2001). According to Szulanski (1996), sometimes, relations between certain business units simply don't exist, which makes a direct transfer process very unlikely to happen. In order to foster innovation and spread knowledge within the MNC, these variables should be equally distributed among the different business units.

Transfer costs are also associated with the network position. Business units with a central position are less exposed to transfer costs, knowledge transfer process being more efficient (Tsai, 2001). On the other hand, if the business unit has a side position, being distant from others, costs associated with the transfer will tend to be higher.

Furthermore, the position in the network by the influence of knowledge access is also translated into the capability to address and respond to market opportunities. The business unit can gain competitive advantage, which later on can be lead to a superior performance and the respective profits (Tsai, 2001).

Tsai (2001) concluded, in his research that by being in a central position of the network, the business unit will benefit from important knowledge and strategic resources that flow in the organization. This received knowledge will also allow the subsidiary business unit to improve its innovative capabilities to achieve a market superior performance. Hence, the network position of the subsidiary business unit can be a barrier for knowledge and innovation transfer, especially if its position is not a central one.

2.3.3.3| Motivation

Motivation both from the sender and the receiver can be a barrier in the innovation transfer process. On one hand the receiver must have the motivation to assimilate and integrate the knowledge received. And on the other hand the source or sender must have the motivation to properly transfer it (Gupta & Govindarajan, 2000; Miao et al., 2016; Szulanski, 1996).

For the source and knowledge holder, transferring its valuable assets might be seen as a loss of control and ownership. The sender can see its privileged position, in holding knowledge, being lost if requested to share a certain knowledge. The expected reward for the transfer might not be enough or seen as worthwhile. Or even, the time spent and costs associated with the transfer might not motivate the source (Szulanski, 1996, 2000). This approach suggests that knowledge is treated as a currency for power retaining within the MNC (Gupta & Govindarajan, 2000).

From the receiver perspective, the literature presents us one specific factor for the lack of motivation. This factor is related with the “*not invented here*” or NIH syndrome (Katz & Allen, 1982). Simply, some receivers tend to resist to accept a knowledge when it comes from the outside the business unit (Szulanski, 1996).

Lack of motivation from both sender and receiver can lead to serious barriers when transferring knowledge within the MNC. According to Szulanski (1996), it is observable in certain situations, such as, foot dragging, passivity, feigned acceptance, hidden sabotage and rejection in the implementation and use of the knowledge (Zaltman et al., 1973).

2.3.3.4| Knowledge nature

A common barrier related with the nature of knowledge, is the *unprovenness* (Szulanski, 1996). This barrier is present when the knowledge hasn't yet proved its' potential or benefits. It constrains not only the ramp-up and implementation stage, but also the decision stage, whether it should be selected for transfer or not. Specially, in the innovation case, this might happen several times, as innovation is related with novel knowledge (Szulanski, 1996).

2.3.3.5| Context nature

Szulanski (1996) in his research, unfolds the nature of the context into two possible barriers. The first is related with the organizational context. The MNC culture, its structure, processes, level of expertise and behaviour-framing attributes. The second barrier is the relationship of business units. The relationship is then translated into how easily business units communicate (Arrow, 1974) and how “intimate” the relationship is between them (Marsden, 1990).

Also, related with the nature of the context and with the second barrier presented by Szulanski (1996), Gupta and Govindarajan (2000) mention in their research the importance of communication channels. Factors as informality, openness and density of communication translate the richness/bandwidth of these channels.

The way MNC build their structure and foment their culture has an influence on the knowledge transfer process. These factors influence the relationship of business units, hence the communication channels between them can be a barrier for knowledge transfer.

2.3.3.6| Cultural differences

The cultural differences topic is not a prominent one in the knowledge transfer literature. Some scholars studied cultural differences applying their focus on international post-acquisition knowledge transfer, which can bias the results, for the purpose of this thesis (Björkman, Stahl, & Vaara, 2007; Sarala & Vaara, 2010). Therefore, we will take some conclusions of their research but give more emphasis to Hansen and Lovas' (2004) and Javidan's et al. (2005) investigations, as they connect knowledge transfer to cultural differences within MNC subsidiaries.

Cultural differences can be seen as an asset, for MNCs, as cultures combinations might lead to potential synergies. However, cultural differences can also be seen as barriers in subsidiary transfers, bringing social integration problems (Björkman et al., 2007).

According to the author, Javidan et al. (2005), knowledge transfer is a difficult process with several barriers. Hansen and Lovas (2004) citing Barkema and Vermeulen (1997) add that cultural differences increase discomfort and decrease trust, creating problems between subsidiary work and interaction. However, in the cross-border knowledge transfer case, there are extra barriers and complexities during the process, making it harder to conclude with success. The authors Javidan et al. (2005) go further in this topic, suggesting that the cross-border factor doesn't bring barriers, per se, to the knowledge transfer, but the way it is managed is what leads to barriers, hence poor knowledge outcomes. Cross-border situations forces MNCs to be proactive and to take a systemic approach to cultural differences, in order to turn the possible barrier into a potential.

2.3.4| Headquarters involvement and resource allocation

Recent literature has focused on the role of Headquarters (HQ) in the knowledge and innovation transfer process (Dellestrand, 2010; Dellestrand & Kappen, 2011; Lind & Kang, 2017; Miao et al., 2016). Before analysing the HQ involvement in the transfer process, it is important to define and understand what are HQ. According to Hungenberg (1993) and Chandler (1962), HQ are the hierarchical responsible for the firm coordination and overall activities, guiding the firm to success and future growth.

Lind and Kang (2017) in their research, suggest that HQ can have two types of approaches towards innovation transfer management. The first approach is ruled by a hierarchical control and minimal corporate involvement. The HQ are concerned with the efficient use of the resources, therefore keeping a supervisor role during the transfer process. The second approach suggested by Lind and Kang (2017) is towards an organizer role of HQ. The HQ involvement is characterized by low formalization, active participation and significant investments in time, effort and resources.

Dellestrand (2010) in his research about HQ involvement in innovation transfer, highlights some reasons to HQ participation in this process. HQ has a strategic responsibility of being constantly identifying needs and solutions for the MNC, which includes creating and sharing innovations. The primary reason for this involvement, is that HQ has the intention to facilitate the transfer process and add value to it, acting as a facilitator instead of a controller and monitor.

In literature, we find that HQ role is to manage and distribute resources among different subsidiaries (Dellestrand & Kappen, 2011; Khanna & Tice, 2001; Lamont, 1997; Mudambi, 1999; Shin & Stulz, 1998; Stein, 1997). Dellestrand and Kappen (2012) define HQ resource allocation as *“the extent to which an MNC’s headquarters allocates resources via direct involvement in decision-making for inter-subsidiary innovation transfer”*, cited by: Miao, et al. (2016, p.666). Therefore, HQ are also responsible by *“allocate corporate resources to a limited number of promising transfer projects, between a sending and a receiving subsidiary in the MNE, anticipating corporate-wide value added”* (Dellestrand & Kappen, 2011, p.264). This implies that not every subsidiary receives the same resources from HQ. Dellestrand and Kappen (2011) study this distribution of resources among subsidiaries in their research.

First, it is critical to outline what kind of resources HQ can allocate. Dellestrand and Kappen (2011, p.265) in their research, follow Barney (1991) framework, and use three types of resources. (1) *“physical capital resources”* (Williamson, 1975); (2) *“human capital resources”* (Becker, 1964); (3) *“organizational capital resources”* (Tomer, 1987).

In order to decide which transfer projects are worth allocating resources to, HQ establish a rank-order of promising projects. The criteria followed to rank the projects is not only according to the projects’ own merit, but also in comparison with other MNC projects. Nevertheless, HQ resource allocation is also impacted by the subsidiary influence in the MNC, through its central position in the network (Dellestrand & Kappen, 2011).

Finally, the research conducted by Miao et al. (2016) about cross-country cultural differences presents relevant evidence for our thesis. Their research finds that resource allocation is also positively related with the subsidiary cultural distance from HQ, as these subsidiaries draw greater attention. Therefore, additional resources are received from the HQ. Further evidence in their research shows that this relation is strengthened by the cultural differences between sender and receiver subsidiary.

Throughout this literature review, the gap in the literature becomes evident. There is a clear lack of qualitative research regarding innovation transfer qualitative, and more specifically the factors leading to transfer failures. Moreover, the influence of a MNC global strategy is rarely taken into consideration, except the specific influence of resource allocation, therefore missing the essence of the global strategy. With this thesis, we will start to fill this gap and provide close insights of case study, using an innovation transfer failure example to understand the impact made by the MNC global strategy.

3| Methodology

This chapter will be divided in two subsections. The first section will present the methodology choices for this thesis. Afterwards, in the second section, we will focus on the methods for data collection and analysis in this thesis.

3.1| Justification of methodological choices

According to Bettis, Gambardella, Helfat and Mitchell (2015, p.637) qualitative research can be applied as “*means of theory building and as a route to identifying important phenomena or unidentified aspects of previously explored phenomena*”. So, we can say that qualitative research is a useful tool to bring new insights to the existing literature, specially in the management field (Doz, 2011). One of our main drivers is the transfer process through the lens and perspective of an organization, that is aligned with our qualitative research approach (Burrell & Morgan, 1979). This thesis seeks to explore the unidentified influence of a global strategy in innovation transfer, so the qualitative research method is the most appropriate approach to pursue this research.

In a qualitative research, different research methods can be applied. Yin (2009), developed a structured framework (see Table 1) in order to help the researcher to decide which method better suits his/her research. According to the author, there are three variables to consider before choosing a method: (1) the type of research question, (2) the researcher control over behavioural events and (3) if the research focus on contemporary events.

Of these variable application, the researcher has five methods to choose from: experiments, surveys, archival analysis, history and case studies. In our case, as we have a “how” research question, the survey and archival analysis are excluded as possible methods for this research. Looking to the second variable we can say that we actually don’t have control over the events. Finally, this research will be focused on contemporary events, leaving us with the case study method as the most adequate one.

We chose to study Pierre Fabre due to its innovation ability. This ability is crucial to ensure the firm survival in these constant innovative industries (pharmaceutical and dermo-cosmetics). In order to have a sustained competitive advantage (Argote & Ingram, 2000; Dellestrand, 2010; Grant, 1996; Kogut & Zander, 1993) is very important that Pierre Fabre can transfer their innovations to its subsidiaries. For these reasons, we chose Pierre Fabre as the company of our case study to help answer our research question.

Table 1 – Relevant Situations for Different Research Strategies (Yin, 2009, p.6)

Method	1)Form of Research question	2)Control over behavioural events	3)Focus on contemporary events
Experiment	How, why?	Yes	yes
Survey	Who, what, where, how many, how much?	No	Yes
Archival Analysis	Who, what, where, how many, how much?	No	Yes/no
History	How, why?	No	No
Case Study	How, why	No	Yes

3.2| Data collection

Within the case study method, there are two types of data collection: (1) primary data, which is collected by the investigator, trying to answer his/her research question and (2) secondary data, collected by someone else, with some other objective.

As part of the primary data collection, we conducted four semi-structured interviews (Table 2 in the appendix) with two different Pierre Fabre collaborators. We choose the interviewees based on the likelihood of possessing valuable information for our research. By interviewing two different people with two distinct roles within the MNC and levels of involvement in the transfer process, we were able to triangulate data, cross-validate the information provided and capture insights from distinct perspectives.

The first interview was with Pedro Gomes, the Commercial Director for Pierre Fabre in Portugal. This was an exploratory interview of the research topic where we discussed possible

transfer processes that were interesting and fit the purpose of this thesis. The second interview was also with Pedro Gomes, in Pierre Fabre Portugal Headquarters, where we explored Pierre Fabre global strategy and their innovation transfer process.

The third and fourth interview were with Paula Barroso, the Product Manager for Pierre Fabre in Portugal. In the third interview, we explored the specific innovation transfer process used in our case study. We also discussed the Pierre Fabre global strategy and its impact on the subsidiary management and product management. Finally, in the fourth interview we delved deeper into the innovation transfer used as case study, creating a process timeline with every participant and actions.

The internal data collected was provided by Pierre Fabre Portugal. This data included the MNC annual report for 2016 and some internal presentations related with the communication strategy and innovation implementation. The internal data also contributed for the data triangulation process. (Table 2 in the appendix)

The external data was mainly collected through the MNC corporate website and the Portuguese subsidiary website. We were able to triangulate some firm information related with the history, internal structure, industries where they are present and product ranges available in the markets (Table 2 in the appendix).

3.3| Data analysis

To analyse the data we used a coding approach (Corbin & Strauss, 2008), that involved selecting, characterizing and labelling. This method allowed to organize the data in the different topics and to extrapolate the information according to its nature, properly using it in the case study.

To help code the data we used Szulanski's (1996) innovation transfer stages (Initiation, Implementation, Ramp-up and Integration) as part of the transfer process. Using these 4 stages, we were able to create an organized and chronological timeline with the different relevant events during the transfer process (Figure 9 in the 4.4.4. section). For example, we coded the quotation from the interview with Pierre Fabre Portugal Product Manager, as *Initiation Stage*, as it refers to the beginning of the transfer process: "*The innovation is communicated in the international marketing seminar or through meetings with a specific subsidiary*".

Part of the coding developed was based on the innovation transfer barriers, that we identified in the literature. We used as code *Absorptive Capacity* and *Motivation*. An example of a

quotation coded with *absorptive capacity*, is from the interview with Paula Barroso, Pierre Fabre Portugal product manager that points as an absorptive capacity advantage the Portuguese market history: “*The Portuguese professionals such as, dermatologists and in maternities already had a past history with this kind of products*”. A coding example for *motivation* comes from the interview with Pedro Gomes, Pierre Fabre Portugal commercial manager: “*If the transfer initiative started in the subsidiary, we would be more motivated to implement it in the market and make it work*”. Other innovation transfer barriers were dropped for coding, as no data fitted in those codes, such as *knowledge nature*, *network position* and *cultural differences*. Finally, from the interviews data collection new codes emerged, such as *failure causes*, that contains data related with the factors that lead to the transfer failure. An example, is the quotation of Paula Barroso: “*The customer wasn’t familiar with the innovation characteristic and the communication made by the pharmacies wasn’t the best one.*”

4| Case study

We choose Pierre Fabre as our case study MNC due to its strong international characteristics, being present with subsidiaries in 47 countries. Pierre Fabre is present in an industry where innovation and R&D activities are constant, and where global interaction is crucial. We will focus our case study in a specific innovation transfer from R&D centres in France to the Portuguese subsidiary. The innovation transfer studied is failure transfer process to better address our research question.

4.1| Company overview

4.1.1| History of the company

The Pierre Fabre MNC started with a single enthusiastic entrepreneur. Pierre Fabre (the founder) started his project in a small pharmaceutical dispensary in 1951¹ in Castres, France but quickly experienced a path of growth and success. The small dispensary turned into a pharmaceutical laboratory on an international scale, but always rooted with the home country, France.

In 1959, Cyclo 3, the first product, was launched. But only in 1962 were the Pierre Fabre laboratories official founded. Pierre Fabre understood that they could do more besides the pharmaceutical market, and in 1965 they started the dermo-cosmetic activity. In 1968 was the opening of the 1st research center in Castres, followed by many others, such as the foundation of Klorane Institute (1995), the Pierre Fabre Foundation (1999), the R&D center (2010), and others.

In 1970 Pierre Fabre had the first internationalization experience, opening a subsidiary in Spain. By that time the firm already counted with 980 collaborators, but in 30 years the number had already increased to 8,111 collaborators. Finally, 2016 signalled the creation of Pierre Fabre Fund for Innovation. Also in this same year, the MNC announced a remarkable 2 billion euros in net sales.

The firm history in Portugal began in 1979, with the first product being distributed in the national market. After different representations, finally in 1990 Pierre Fabre acquired the represent in Portugal (Lineafar), giving origin to the Portuguese subsidiary.

¹ This and the following figures in the present section are from the Pierre Fabre 2016 annual report.

Currently the company counts with over 13,000 collaborators, acting in 3 main fields: (1) pharmaceuticals, (2) consumer health care and (3) dermo-cosmetics. Has 47 subsidiaries in different countries and distribute their innovations to 130 other countries.

Pierre Fabre is moved by the concerning about human being as whole. Deliver innovative nature rooted products that contribute to the human well-being, from health to beauty, always with the focus on an ethical pharmaceutical practice is what can be described as Pierre Fabre's mission.

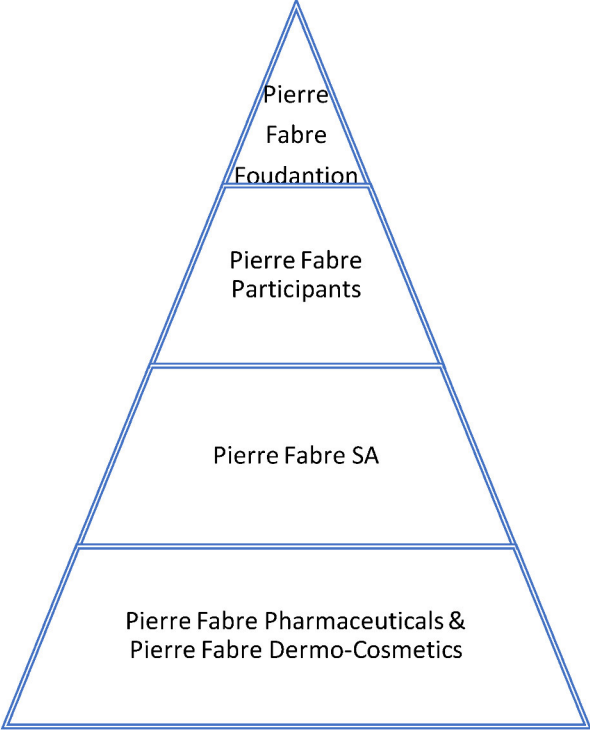
4.1.2| Pierre Fabre's structure and products

Pierre Fabre has a unique shareholding structure to ensure the firm continuity in-line with its values. This structure can be divided in 4 parts (Figure 2). First, we have the (1) Pierre Fabre Foundation, that is dedicated to the firm public interest mission. The Foundation doesn't have a participant role on the operations, delegating it to (2) Pierre Fabre Participants. Pierre Fabre Participants is responsible for the global strategy control and nominates the firm main executives. The elaboration of the strategy is of (3) Pierre Fabre SA responsibility, that also coordinates the firm main activities, support functions and shared services. Finally, Pierre Fabre SA supervise the two main business units (4) Pierre Fabre Pharmaceuticals and Pierre Fabre Dermo-cosmetics, that are in charge of the pharmaceutical and dermo-cosmetic businesses, respectively.

Pierre Fabre's operational structure is divided between Pierre Fabre International and Pierre Fabre France, each with its own operating structure. For this thesis purpose, we will focus on the International structure, as explicit in Figure 3. Pierre Fabre International is divided in the pharmaceutical and dermo-cosmetic departments. These departments HQ are located in Pierre Fabre home country, France. The subsidiaries are then divided according to each region, reporting directly to them. The regions are organized in geographical terms as: (1) Europe, Middle-East and Africa, (2) America and (3) Asia. Finally, each subsidiary manages its own operational structure and is responsible for the brands that they commercialize.

On the other hand, Pierre Fabre France has its structure organized by the 8 brands present in

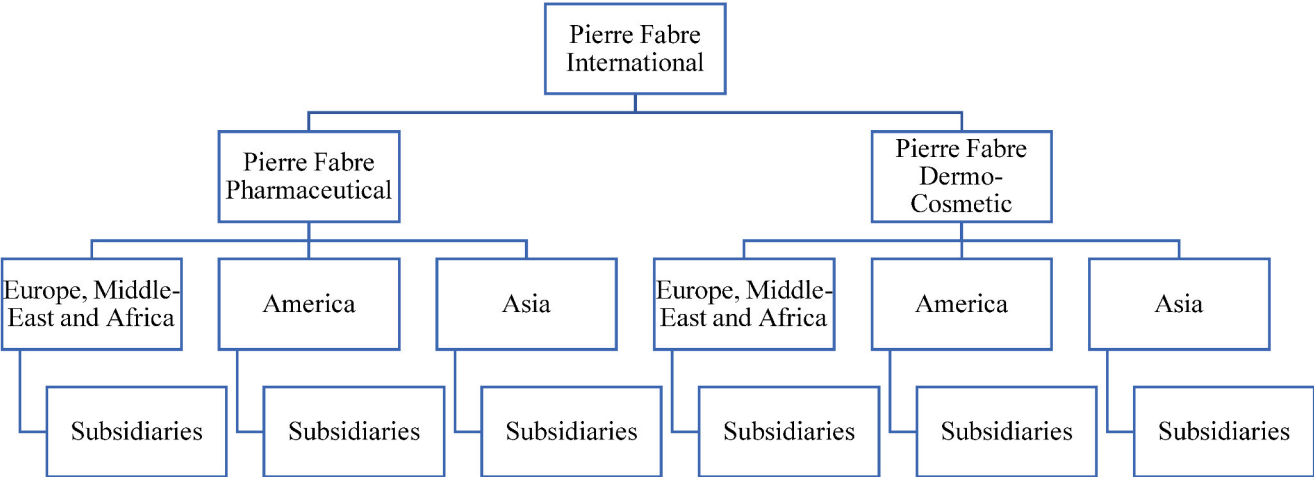
Figure 2 – Pierre Fabre shareholding structure



Source: Pierre Fabre corporate website

that market. Each brand has its own departments and internal management structure.

Figure 3 – Pierre Fabre operational structure



Source: by the author

4.1.3| Pierre Fabre & innovation

Pierre Fabre commitment to innovation has increased since its' foundation. As required by the industry, R&D activities are at the heart of Pierre Fabre operation, however the firm takes this commitment beyond what is expected, putting it at the centre of their strategic priorities. The firm counts with 8 different research and innovation centres dedicated to 5 areas of innovation: (1) oncology, (2) central nervous system, (3) dermo-cosmetics, (4) consumer health-care and (5) dermatological Rx. These areas of innovation guarantee a completely integrated development system, from discovery phase until pre-marketing phase, being ready to implement in any market.

Pierre Fabre combines the different research areas in order to establish novel links between them, making use of cross-functional expertise. Confirming the commitment to innovation, in 2016, Pierre Fabre invested nearly 180 million euros² in innovation. This investment guaranteed 19 new patents, in 2016, that were added to the firm's 308 patent portfolio.

Recently in February 2016, Pierre Fabre strengthened its commitment to innovation, launching the novel Pierre Fabre Fund for Innovation. This new fund takes an important step in Pierre Fabre Innovation strategy, by introducing an original open innovation initiative. With this Pierre Fabre gives the opportunity to biotech companies, startups and research laboratories in oncology, onco-dermatology or dermatology, to foster and speed-up the development of innovation in the field. The group CEO, Bertrand Parmentier adds that "It is therefore an innovative and collaborative initiative that falls within the framework of our open innovation strategy".

Pierre Fabre has in place a second innovation initiative. The Nature Open Library is the only program in the world based "on sharing expertise in the research, development and industrialization of plant-based active ingredients", as explained by Frédéric Duchesne, the CEO Pierre Fabre Pharmaceuticals, in its interview for the 2016 annual report. This program offers to innovative companies an exclusive access to Pierre Fabre extensive sampling library, containing approximately 15,000 plants and extracts.

² The figures in this section are from Pierre Fabre 2016 annual report and the firm corporate website.

4.2| Pierre Fabre innovation transfer

In this topic, we will unfold the different stages of an innovation transfer process in Pierre Fabre. The most common type of innovation transfer in the firm are product innovations, so we will focus on this specific type.

After we will analyse the tangency point of Pierre Fabre global strategy and innovation transfer and how the global strategy guides and affects innovation transfer in the firm.

4.2.1| The transfer process

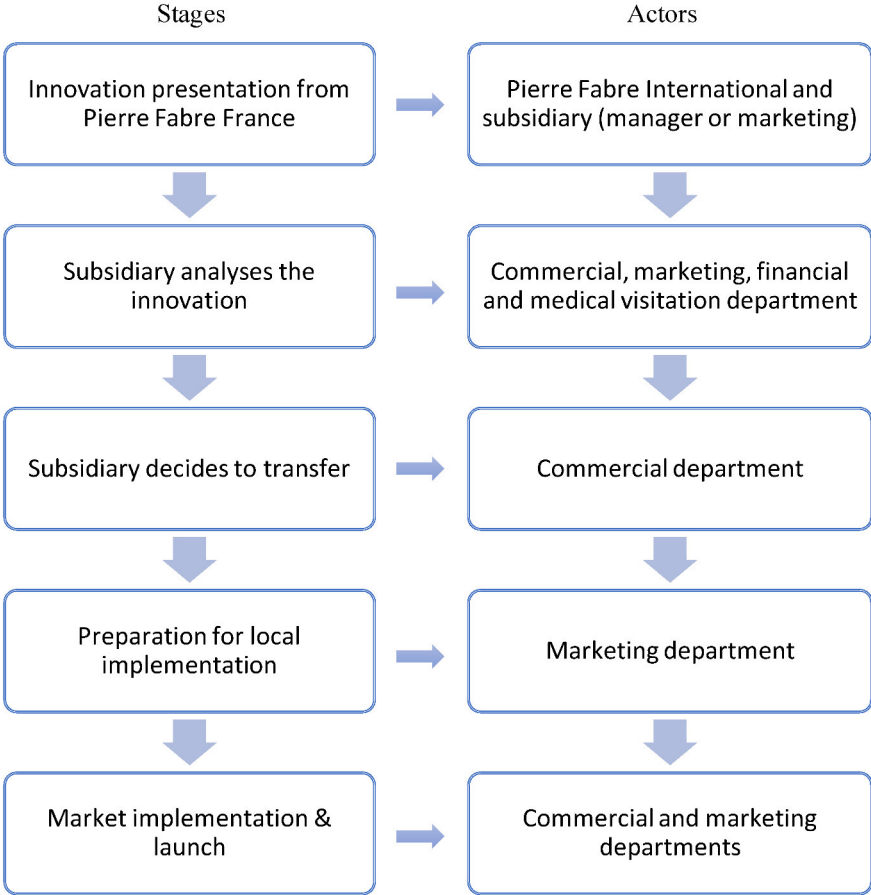
Pierre Fabre innovation centres and R&D are located in France, their home country. It is in that location that the innovation transfer process begins. Prior to the innovation and R&D process, Pierre Fabre as a team allocated to identify market trends. When a trend is identified and justified, Pierre Fabre is able to start the R&D process, therefore coming up with an innovation. The process of developing the innovation is complex, due the industry nature, *“usually takes 3 to 7 years to be completed, depending on its specification”*, explains Paula Barroso, Product Manager for the Portuguese market. The innovation is then communicated to the different subsidiaries by Pierre Fabre International through *“the international marketing seminar or through meetings with a specific subsidiary”*, explains Barroso and as observable in Figure 4. At this stage, the innovation is ready to be implemented by the subsidiary. The implementation will then be differentiated according to its specifications, but for this thesis purpose we will focus on the product innovation type, as the most common type of transfer.

After the innovation is communicated, the subsidiary *“marketing department interacts with the commercial department with collaboration of the financial department and medical visitation department”*, explains Pedro Gomes, Portuguese commercial director. The purpose of this interaction is to develop a business plan and a critical opinion whether the subsidiary wants to receive the innovation. The role of the medical visitation department is crucial during this process. The medical visitation will ensure that the country’s health professionals understand the product usage and see advantages in its commercialization. In this stage, they guarantee an important validation as professionals and as close contactors with the customers.

When the pros and cons are analysed, along with the business plan, the subsidiary decides if the innovation will be transferred, concluding the initiation stage.

If the subsidiary decides to move with the transfer, they will start with its implementation. During the implementation stage, the subsidiary prepares the launch by setting a communication strategy and a medical visitation approach. At this stage, the medical visitation has a different role to that of the initiation stage, which consists in visiting the health professionals that will have contact with the product, so they can learn the product details to be able to properly recommend it to the customers.

Figure 4 – Innovation transfer process overview



Source: by the author

Finally, when these procedures are concluded, the subsidiary is able to launch the product in the market, concluding the implementation stage. This launch usually comes along with in-store (pharmacies) promotions and personalized stands to attract the customer. During this process, the main costs are the product acquisition (bought to Pierre Fabre France) and marketing expenses.

The following stages (ramp-up and integration) are simply a sales monitoring and innovation performance on the market, performed by the commercial department.

4.2.2| Pierre Fabre global strategy towards innovation transfer

As we saw in the topic 4.1.3, innovation in Pierre Fabre is of extreme importance and the firm is constantly searching new methods that empower innovation, such as the recent Pierre Fabre Fund for Innovation. This strong commitment to innovation is reflected in the firm strategic priorities (Figure 5) placing innovation as the heart of Pierre Fabre. In order to assure an

Figure 5 – Pierre Fabre strategic priorities



Source: Pierre Fabre 2016 Annual Report

alignment between the strategic priorities and the subsidiaries, a centralized global strategy is settled, that is communicated to the subsidiaries. *“In the annual meeting with Pierre Fabre International we get to know the firm global strategy, after we outline our own local strategy based on the global one. In that meeting we also discuss our annual objectives and budgets”*, explains Gomes.

The same alignment happens in innovation transfer. Upon an innovation development, the goal is to transfer it to the subsidiaries, so that a worldwide impact is created by a global launch. *“When the R&D department communicates an innovation to the subsidiaries, they apply some pressure so the subsidiaries accept to transfer the innovation”*, explains Barroso. A global launch not only leverages a worldwide impact *“but also helps to reduce costs and accelerate the investment return on R&D”*, explains Gomes.

In order to launch an innovation worldwide, there needs to be a certain level of standardization. In this case, Barroso called our attention to the fact that *“innovations and products come to us in a standardized way and with some specific guidelines. Here in Pierre Fabre Portugal we*

can adapt our communication strategy and little else". Hence, the level of possible local adaptation and autonomy in innovation transfer is limited by Pierre Fabre global strategy.

4.3| A-Derma Primalba Nourisson transfer process

In this section, we will present the innovation that was transferred from France (R&D centre) to the Portuguese subsidiary of Pierre Fabre. We will start with a short product description and contextualization. Finally, we will go through the transfer process.

4.3.1| A-Derma Primalba Nourisson

In organizational terms, A-Derma is a brand that belongs to the dermo-cosmetic department. The brand is also associated with medical visitation, meaning that is not fast-moving consumer good. A-Derma is focused in providing natural dermatologic products that keep skin sound and healthy. To satisfy the customer's needs, the brand offers different product ranges according to their benefits, usage and age group.

Soon the brand understood the importance of differentiating between an adult skin and baby skin, which is easily irritable. After the research, A-Derma created the specific product range Primalba. Primalba range offers several products that materialized the parental concern with the baby skin.

Its inside the Primalba range where we can find the innovation transfer of this research: Nourisson. The Nourisson product, was an incremental innovation to prior baby skin care products. This innovation added an oil texture characteristic, that at that time was unique in the market, as existent products used a lather texture. With Primalba Nourisson parents were now able to bath, clean and massage their children using a water-free oil.

4.3.2| Transfer context

In 2012 the economic context wasn't the brightest for Portugal. According to Pordata the Portuguese deficit was 5,7% in 2012, already showing a recovery of 1,7% from the previous year. ("PORDATA - Administrações Públicas: despesas, receitas e défice/excedente público, em % do PIB," n.d.). By that time, the first semester of 2012 was expected to be the most severe, in the crisis the Portugal was going through, according to Diário de Notícias. ("Portugal - Pior da crise vai ser no primeiro semestre de 2012," n.d.) Consequently, this economic crisis impacted other fields, such as demographics. In 2012, Portugal had the second lowest natality rate of the European Union with 8,5% births per 1000 inhabitants ("Portugal tem a segunda taxa de natalidade mais baixa da União Europeia," n.d.). It was during this severe economic

crisis, with repercussions in the natality demographics that Pierre Fabre launched A-Derma Primalba Nourisson. Despite the economic crisis, the market of baby skin care products “*was growing between 1 and 5%, which it was very good, however, this trend ended in the following years*”, explains Barroso.

By the time A-Derma Primalba Nourisson entered the Portuguese market, the product brought some unexperienced features in the competing context. As mentioned in the product description, “*Nourisson was the first oil based texture in the market. Existent products offered a lather texture*”, explains Barroso. Despite being a novelty and a new kind of product for the regular customer, the oil texture products for bath, cleaning and massage were already used by health professionals, more specifically, in maternities and by dermatologists. “*The Portuguese professionals such as, dermatologists and in maternities already had a past history with this kind of products, and that was one of the reasons that influenced our decision to bring it to our market*”, explains Barroso.

4.3.3| Transfer process

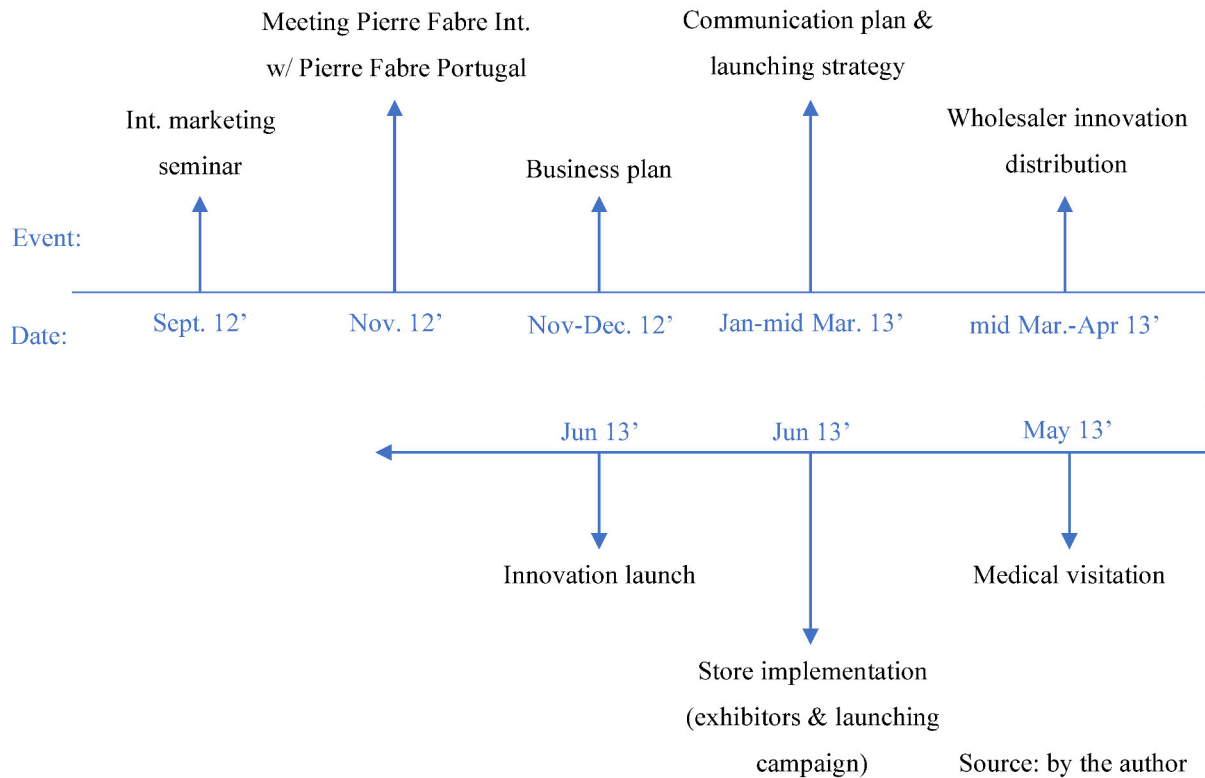
The A-Derma Primalba Nourisson transfer process occurred in 2012. The transfer process started in September 2012, in the international marketing seminar and counted with the presence of the European division countries, as seen in Figure 6. In this seminar “*2 or 3 innovations were presented to us, as every year*”, explains Barroso and subsidiaries get the first contact with the MNC innovations. The seminar began the initiation stage of the transfer process. After the marketing seminar, Pierre Fabre International settled a meeting with the subsidiary, in November 2012, where among several discussion topics, is the innovation transfer topic is present. “*In this meeting where me, the general manager and the product manager are present, Pierre Fabre International discuss with us the annual objectives and forecast. But they also presented the innovation business plan*”, explains Gomes. The business plan was naturally shared with Pierre Fabre Portugal that kept it for further analysis and use it as a tool in the decision making.

The transfer decision heavily relied on the business plan analysis, involving the commercial and medical visitation departments. When Pierre Fabre Portugal gave the green light to move with the transfer, all the necessary local preparations were initiated. Upon this decision initiation stage was completed and the implementation stage was ready to start.

The implementation stage kicked off with the communication strategy planning, outlined by the marketing department. In the meantime, the rest of launching strategy was also being

prepared. *“The launch of a new product [innovation] always increase our workload, because besides what we already have to do, we still have to prepare the new launch”*, explains Barroso. Upon the planning conclusion in mid-March 2013, the commercial department sent the products to the wholesaler that stored them until orders from pharmacies were received. In May, the medical visitation department began the visits to pharmacies and health professionals. Indeed, this is one of the most important steps in all the process, *“the medical visitation department plays an extremely important role in the process, because is through them that the doctors and pharmacies will get to know the innovation, when and how they should recommend it to the patients”*, explains Barroso. Due to its importance and exhaustive process, it took 2 months to properly advise and prepare Portuguese doctors and pharmacies. During the month of June, Pierre Fabre prepared the stores (pharmacies) to receive the innovations with personalized exhibitors. *“The marketing department prepared a very nice communication plan, beside the personalized in-store exhibitors they did a promotional kit, that offered a small bag to carry the baby stuff”*, explains Barroso (Figure 7 and 8 in the appendix). In the meantime, the wholesalers were already receiving orders so the product finally reached the stores in June. Early in June, Primalba Nourisson was finally available in pharmacies for the Portuguese customers. Despite the intense preparation and optimism upon the launching, the expected results weren't met. Primalba Nourisson was available in the Portuguese market for 2 years and during that period, is important to enhance, that the medical visitation department still regularly visited health professionals. However, due to weak sales, after 2 years on the market Pierre Fabre Portugal decided to take it off.

Figure 6 - Innovation transfer timeline



4.3.4| Factors that lead to the transfer failure

During the transfer process, there were different factors at different stages that contributed to the transfer failure (Figure 9). In this topic, we will be analysing the different factors that led to an unsuccessful innovation transfer process.

The first evident factor for the failure was the pressure made by Pierre Fabre International to the subsidiaries so they would accept the transfer of innovation. *“We understand the intention of forcing a global launch, but sometimes this influences our decision on the transfer and we see ourselves being recommended to accept it”*, explains Barroso. However, it is also recognized that, *“if we could choose the innovation we wouldn’t be the global firm that we are today as we would be more selective in choosing the innovations”*, explains Barroso. The Portuguese subsidiary recognizes that sometimes imposition has a negative effect when transferring innovation, but on the other hand they understand and accept it as part of Pierre Fabre global strategy.

The second factor, considered by Gomes as *“one of the most crucial to the transfer failure”* is related with the market. Even though Primalba Nourisson was an innovative product, the customer *“didn’t need the innovation”*, explains Barroso. The fact that the customer didn’t need

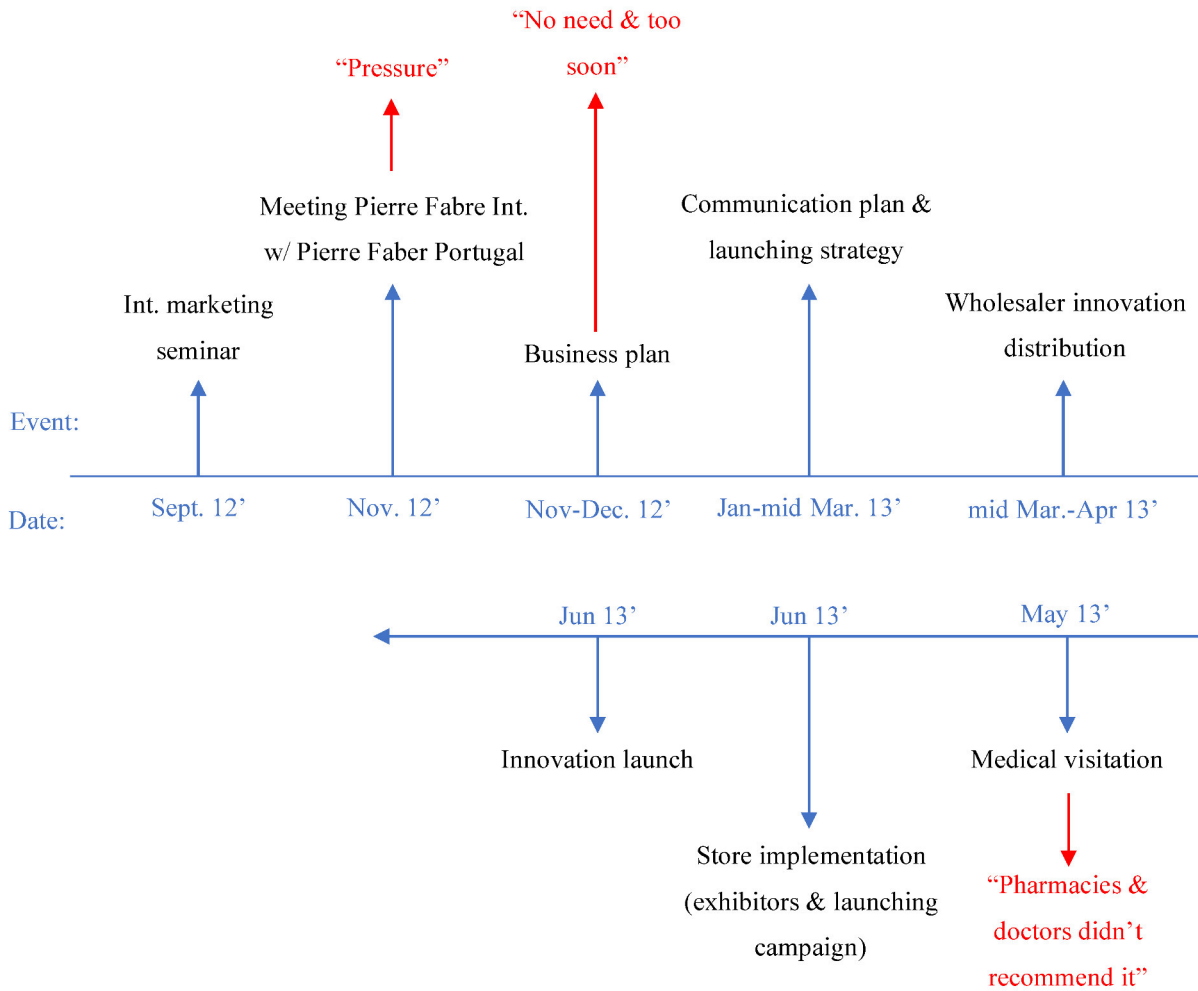
the innovation at that time *“made it very difficult to be a successful innovation transfer, because it is very hard to sell something when the customer doesn’t really understand why they need to buy it”*, explains Barroso.

The second factor actually influences and introduces the third failure factor. This factor, also considered as *“one of the most crucial to the transfer failure”*, explains Gomes was the decision timing. Barroso goes further explaining that, *“the innovation was out of its time, it was too soon to launch this innovation”*. Associated with this reason, Barroso explains that *“the market wasn’t ready to receive this innovation yet, it wasn’t adapted”*. The missing of a timely decision is confirmed by the competitor’s launch of similar products years later, that ended up being successful and well received by the customers.

The fourth and last factor was the poor communication and advising. The health professionals such as, dermatologists, pharmaceuticals and maternity doctors, received the innovation with much enthusiasm and recommend the Portuguese subsidiary to launch it. However, *“when the innovation was finally available on the market the health professionals didn’t recommend it to the customers”*, explains Barroso. An important part of Pierre Fabre communication is through health professionals’ product recommendation, that gives credibility and gives incentive to customers to start using a certain product. Also related with this factor is that *“there was a lack of monitoring capability. The medical visitation department didn’t have, until a few months later, the capacity of monitoring and evaluating their medical visitations, because such process didn’t exist”*.

These are all the main factors that the Pierre Fabre subsidiary recognizes to have compromised the innovation transfer. Barroso and Gomes both give special attention to the *“didn’t need the innovation”* and *“it was too soon to launch this innovation”* factors as main drivers of the failure. They have also acknowledged that a more meticulous business plan might have helped to avoid the failure and would have properly forecasted some of the failure factors.

Figure 9 - Innovation transfer timeline w/failures



Source: by the author

5. Findings & discussion

In this section, the direct influence of Pierre Fabre global strategy in the A-derma Primalba Nourisson innovation transfer process will be presented. We will link the global strategy influence with the failure causes presented by the subsidiary and establish a relation between them.

Among the different failure causes of A-derma Primalba Nourisson some are directly connected to the influence of a global strategy. However, other failure causes don't have a direct or observable relation with the global strategy, that we will see further in this thesis.

5.1 The pressure to accept transfers

Finding

The first sign of a global strategy influence appears right in the beginning of the transfer process, in the initiation stage. Pierre Fabre being a MNC seeks to create a global impact, therefore the firm HQ are interested in making its innovations available in as many subsidiaries as possible. To do so, Pierre Fabre applies pressure in subsidiaries to accept the innovation transfer. As result of this pressure, a biased innovation transfer decision is made, leading to an inefficient motivation towards the transfer.

“they apply some pressure so the subsidiaries accept to transfer the innovation”. Product manager, Paula Barroso

“but sometimes this influences our decision on the transfer and we see ourselves being recommended to accept it”. Product manager, Paula Barroso

“If the transfer initiative started in the subsidiary, we would be more motivated to implement it in the market and make it work”. Commercial manager, Pedro Gomes

Discussion

Naturally, when forced or pressured towards a certain decision the outcome is not the most accurate or transparent. And when this decision means a following up work on that same matter, motivational issues might appear. Although, the subsidiaries are used to this and they understand the need of creating a global impact with worldwide innovation transfers, the fact of being pressured has a negative outcome to the transfer process.

The motivation is also referred in some researches (Gupta & Govindarajan, 2000; Miao et al., 2016; Szulanski, 1996) as a barrier to knowledge and innovation transfers. According to the literature, this barrier can be raised both on the sender and/or on the receiver side, but we will focus on our case appliance, therefore the receiver motivation. The reasoning present in the literature for the motivational issues is the “*not invented here syndrome*” (Gupta & Govindarajan, 2000, p.475-476). However, the motivational issue in our case study has a different nature (pressure from the senders, that have a higher hierarchical position).

5.2| Global strategy ahead of local market analysis

Finding

Related with the motivation to create a global impact is Pierre Fabre commitment to fulfil its mission and strategy. Besides the biased decision, Pierre Fabre first analysis is towards its global strategy and the impact they want to create, instead of analysing the local market. By pursuing this approach, “*the most crucial causes of the failure*”, as presented by Barroso and Gomes, tend to happen, as in Primalba Nourisson case. And as a result, the innovation was launched out of time and without a real need of the customer. Another interesting perspective is signalled by Barroso, saying that “*the market wasn't ready to receive this innovation yet, it wasn't adapted*”. This suggests exactly that, Pierre Fabre wasn't concerned in reading and analysing the market by adapting its innovation to it, instead they developed an innovation and expected the market to adapt. Its this same need of adaptation that takes us to the next negative influence of the global strategy.

“[the lack of a need] *made it very difficult to be a successful innovation transfer, because it's very hard to sell something when the customer doesn't really understand why they need to buy it*”. Product manager,
Paula Barroso.

“the innovation was out of its time, it was too soon to launch this innovation”. Product manager, Paula Barroso.

“the market wasn’t ready to receive this innovation yet, it wasn’t adapted”. Product manager, Paula Barroso.

Discussion

In this situation, we can see an example of the global strategy nature in MNC. Before looking at the local market’s needs, the firm looked at their global strategy, therefore this innovation transfer made sense. Kanter and Dretler (1998) in their global strategy research, explain exactly this phenomenon, that MNCs focus on their international scale, even when operating in a subsidiary local market. Another interesting perspective given by Pierre Fabre Portugal upon identifying the failure causes, is the fact that the market that wasn’t adapted to the innovation yet, instead of “our innovation wasn’t adapted to the current market”. This perspective evidence the global strategy above local market needs approach taken by the firm.

5.3| Lack of local adaptation

Findings

Part of Pierre Fabre global strategy is to launch not only everywhere, but also the same innovations. Primalba Nourisson reached the Portuguese subsidiary as a standardized innovation, similar to the other 6 countries. Part of this lack of local adaptation is the business plan usage. Indeed, the subsidiary didn’t develop its own business plan, but used the business plan provided by Pierre Fabre International and made minor changes and adaptations to it. Once again, it is possible to observe the subsidiary taking the global strategy in consideration, before their local market.

“innovations and products come to us in a standardized way and with some specific guidelines. Here in Pierre Fabre Portugal we can adapt our communication strategy and little else.”. Product manager, Paula Barroso.

“we didn’t develop our own business plan from the ground, as advised by the international department, we took the business plan shared with us and made some minor changes to our reality.”. Commercial manager,
Pedro Gomes.

Discussion

In the lack of adaptation its possible to observe, once more, the evidence of a global strategy influence. Actually, it is a common practice of a global strategy approach to distribute standardized products, in this case a standardized innovation among different country subsidiaries. As presented in the literature *“the core of a global strategy [Levitt] lies in developing a standardized product to be produced and sold the same way throughout the world”* (Ghoshal, 1987, p.426), which is exactly what we could observe in Primalba Nourisson case. The local adaptation through the elaboration of a local grounded business plan could have forecasted “it was too soon” or ”there wasn’t a need”. Also, a local adaptation at the innovation level could have enhanced a customer empathy with the innovation or fostered the customer need.

6. Conclusion and future research

The purpose of this thesis was to enrich the literature, more specifically try to bring new insights concerning the literature gap on the influence of a global strategy in the innovation transfer process.

In order to answer our research question and study this topic, we analysed the MNC Pierre Fabre. We chose the Primalba Nourisson innovation transfer to be our case study, as a practical example of a failed innovation transfer process.

During this case study, we were able to identify 4 major causes that lead to the failure case. Some of these causes are related but they are still different and important to differentiate. The 4 causes are: (1) pressure to accept innovation transfers; (2) global strategy ahead of local needs; (3) lack of local adaptation; (4) health professionals didn't recommend the innovation and lack of monitoring the medical visitation performance.

From the 4 major causes, the first 3 are directly related with the influence of the global strategy. The pressure over the subsidiaries to accept the innovation, might create motivational constraints, and even though the last word to accept the innovation is from the subsidiary, this pressure, bias and influences the decision. The second and third failure cause can be discussed together, as both come from the globalization effect. The globalization phenomenon is then observable in the MNC global strategy, applied to the subsidiaries and used as base for the local strategy. Certain actions are thought in global terms and miss the local variable. This also brings lack of adaptation, as seen in the Primalba Nourisson case, there was only independence to personalize the communication strategy.

Concluding, the global strategy can influence innovation transfer in MNC. It is expected to have a certain level of standardization and homogeneity; however, it is important that MNCs understand to what extent the standardization and following of the global strategy jeopardizes and harms the outcome of an innovation transfer. Therefore, having a certain level of local adaptation or local participation in the global strategy elaboration could contribute to the success and impact of innovation transfers.

Regarding this thesis, there are 3 major limitations that are worth to mention. The first is related to the nature of the sender and receiver countries. Pierre Fabre HQ are located in France, as well as the International and Innovation department. The subsidiary that received the innovation is located in Portugal, so we have studied an interaction between 2 European countries. Being 2 European countries there are certain perspectives or factors that did not play a relevant role

in this study and process, such as cultural divergences, geographic distance, etc. The second limitation is due to the fact that there was no direct contact with the sender institution, therefore we were only able to capture one perspective of the transfer process. Finally, the third limitation is related with the industry studied. We believe that by studying other industries, with different specifications, the factors influencing the transfer failure and global strategy influence could have showed other reliable results.

As for future research recommendations, it would be interesting to explore this topic from the local adaptation perspective (“glocalization”) instead of the global. Perhaps by using “glocalization” as starting point in innovation transfers, could set a framework of local adaptation. During our research, we focus on the global strategy downsizes for innovation transfer, which are limited. For future research, it would be interesting to further explore the global strategy influence from the positive impact lens. Also, as mentioned in this thesis, there is a gap in the literature concerning knowledge and innovation transfer. As seen in the literature review, in innovation researches knowledge based theories are often used. Therefore, it would be interesting to explore the innovation transfer topic and analyse the differences with knowledge transfer theories.

7. Appendix

Table 2 – Data Collection Summary

Nature of Evidence	Type of Source	Data of Evidence	Brief Description	Source / Respondent's name & Position
Interviews	1 st Interview	26-10-2017	Exploratory interview; innovation transfer cases in Pierre Fabre; Pierre Fabre & innovation	Pedro Gomes (Commercial Director)
	2 nd Interview	07-11-2017	Pierre Fabre global strategy; the innovation transfer process; Primalba Nourisson the MNC structure	Pedro Gomes (Commercial Director)
	3 rd Interview	08-11-2017	Primalba Nourisson transfer process; global strategy impact in the subsidiary and product management	Paula Barroso (Product Manager)
	4 th Interview	06-12-2017	Primalba Nourisson detailed transfer process, w/ participants and different stages	Paula Barroso (Product Manager)
Internal Documents	Pierre Fabre 2016 annual report	Received 07-11-2017	Information about the MNC, areas of business, areas of innovation revenues and investment, employees, CSR, etc.	Pierre Fabre
	Primalba Nourisson presentation	Received 08-11-2017	General presentation about the innovation	Pierre Fabre
	Primalba Nourisson Communication Plan	Received 08-11-2017	Communication plan w/ main marketing actions	Pierre Fabre
	Primalba Nourisson Business Plan	Received 06-12-2017	The Business Plan outlined by Pierre Fabre International shared with the subsidiaries	Pierre Fabre
External Documents	Corporate website (Pierre Fabre)	2017	MNC structure, history, general information	https://www.pierre-fabre.com/en

Portuguese database (PORDATA)	2017	Information about Portuguese natality rates	http://www.pordata.pt
Portuguese new website	2017	Information about Portuguese economy	https://www.dn.pt/economia

Figure 6 – Promotional kit for girls



Figure 7 - Promotional Kit for boys



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