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**International Business, Economic Geography and Innovation
iBEGIN 2018**

The relationship between local and global connectivity

October 26-27, 2018

Fox School of Business, Temple University, Philadelphia, PA, USA

KEYNOTE SPEAKERS

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While the multinational enterprises (MNEs) have long been central actors in global economy, their knowledge creation remained centralized at within their home countries even toward the end of the 20th century (Patel & Pavitt, 1991). However, by the turn of the century, research documented an antithesis: MNE innovation activities were undergoing rapid and widespread globalization (Frost, 2001, Cantwell & Mudambi, 2005). This process accelerated as MNEs began to take advantage of large pools of cost-effective knowledge resources in gigantic emerging market economies like China and India (Awate, Larsen & Mudambi, 2012; Zhao, Anand & Mitchell, 2005). This process has continued in spite of the weak protection of intellectual property in many emerging markets (Zhao, 2006). The most recent evidence suggests a potential synthesis: while innovation networks appear to display both local and global knowledge connectivity, the volume and breadth of the former appears to be many times larger than the latter (Scalera, Perri & Hannigan, 2018); most MNEs display an unbalanced geography (Coeurderoy & Verbeke, 2016). The synthesis points to a new research agenda encompassing the three disciplines of international business, economic geography and innovation.

One main driver of the globalization of innovation today is the establishment of connections between organizations (e.g., firms, universities, research labs, governments) and individuals dispersed worldwide. Connections enable innovative organizations to tap into geographically dispersed knowledge sources and allow them to leverage a wider range of heterogeneous knowledge inputs featuring unique characteristics that are highly localized within specific knowledge and clusters (Awate & Mudambi, 2018).

The importance of local context in innovation has been widely recognized, with the acknowledgement of the role of colocation as central for knowledge diffusion and recombination

(Jaffe, Trajtenberg & Henderson, 1993). Geographic proximity is the main driver of local connectivity, which facilitates face to face interactions and serendipitous encounters (Gertler, 2003). In addition, colocation reduces the search costs for new collaborators and the costs associated with coordination, monitoring and transfer of sophisticated knowledge (Catalini, 2018; Eriksson, 2011).

However, because of the increasing value of intangible assets and the need to leverage diverse knowledge bases in modern innovation, distinctive technological resources are sourced from a wider number of locations (Berry, 2014; Cantwell, 1989). Multinational enterprises (MNEs) use their internal network of subsidiaries to tap into diverse local contexts, including knowledge clusters and global centers of excellence (Cantwell and Mudambi, 2005). Allied with global connectivity, knowledge integration emerges as a key capability in leveraging subsidiaries' capabilities (Rugman & Verbeke, 2001). In addition, firms can create channels for global connectivity not only via foreign subsidiaries, but also by developing and maintaining knowledge networks through individuals (i.e., inventors) dispersed worldwide (Fleming, King & Juda, 2007; Perri, Scalera & Mudambi, 2017).

While local and global connectivity have been widely studied in isolation – with the economic geography literature mainly focusing on the former and the international business research on the latter – recent studies have highlighted that the two knowledge sourcing strategies significantly interact (Scalera et al., 2018), especially in context of platforms and eco-systems (Kapoor & Lee, 2013). The extent to which companies rely on domestic and global connectivity may be related to amount of spatial transaction costs. When they are high, they bias activities toward local connectivity. As they fall, global connectivity becomes cheaper and complex activities may be move to cheaper locations. Following this reasoning, global connectivity is a *substitute* for local connectivity. However, falling spatial transaction costs also allow for global value chain (GVC) rationalization. Hence, locations become increasingly specialized in particular activities, and connected to other specialized locations for related activities (Awate & Mudambi, 2018). In other words, this implies that global connectivity is a *complement* for local connectivity.

There is evidence for both of these positions and this apparent conflict raises a number of crucial questions for both theory and policy. Even if connectivity is at the core of today's innovative activities, we still know little about:

- what situations and contexts may be most important for the development and efficacy of local and global connectivity;
- which forms of local and global connectivity are more beneficial to the generation and diffusion of innovation;
- is the logic of knowledge search in domestic geographies different from that in global geographies and if so, how?
- the mechanism through which local and global connectivity may contribute to knowledge creation in firms, GVCs and regions.
- what is the role of bounded rationality / managerial bandwidth in the MNE's local vs. global connectivity?

Future research should address this phenomenon adopting multiple perspectives, and the research avenues mentioned above are only few of the many possible future investigations. In addition to the conference theme, all papers that address more general research questions related to the iBEGIN agenda, both theoretical and empirical, are welcome.

KEY DATES:

Submission of extended abstracts: August 3, 2018

Decision on abstracts: September 7, 2018

SUBMISSIONS:

Submit extended abstracts to: 2018ibeginconference@gmail.com

Submission format: extended abstracts (“SMS-style” submissions – 5-7 pages)

CONFERENCE DATES: Oct 26-27, 2018.

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