

**Innovation Projects by Multinational Companies in  
Developing Countries: The Case of Mexico**

by

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## ABSTRACT

Innovation is often mentioned as a driver of national competitiveness. Countries vie with each other to attract investment to perform innovation within their territories. This is especially important for emerging economies trying to establish their position in the world economy. Hence the overarching question explored in this thesis was, “What are the important factors underlying a decision by a multinational company to conduct a tax credit subsidized innovation project in Mexico?”

More importantly because of recent research stressing the importance of the National Innovation System (NIS) for innovation effectiveness, we are particularly interested to what extent, if any, the NIS of the host country influences company innovation success. The National Innovation Systems perspective aims to understand the linkages and interaction between companies, institutions, and policies that foster innovation. In the past this perspective has been primarily employed to provide information that allows governments to dictate policies that promote innovation and provide benefits for society.

In contrast, this study explores the point of view of the company that performs the innovation project and in particular explicitly investigates company perspectives on the engagement with the Mexican National Innovation System.

Based on the literature a two stage model relating to the selection of projects and to projects outcomes was developed. The first part of the model was addressed in part by the first part of the study that focused on information obtained from 1,372 innovation projects conducted by subsidiaries of foreign companies that received tax credits from the Mexican government in 2005 and 2006. With this information several hypotheses were tested related to the type of project performed (product or process innovation) and the outcomes obtained (financial, employment, productivity and generation of knowledge). The model also includes the perception about the National Innovation System as a factor determining the type of project performed, but this could not be evaluated with the secondary information available. The second part of the study takes a different approach, by focusing on an in-depth analysis of nine companies that represent important markets and also parent companies from three different continents. It provides a better sense of the market reasons, the impact that the government incentives program

has on their plans for conducting innovation in Mexico, and also of the firms' present relationship with the National Innovation System. This study also helps to establish the perception of multinational companies about performing innovation projects in Mexico, their motivations, their satisfactions with the outcomes, and the outlook of their innovation processes in Mexico.

The results of this analysis confirm the growing importance of the NIS for the companies, although the association is currently limited. The hypothesis of possible effects of NIS is only confirmed for projects that generate knowledge. Both location and market factors have influence on the type of projects selected and also on the outcomes obtained. Several aspects about the relationship of companies with the NIS are outlined, allowing the different elements of the NIS to understand the perception of companies and to further develop and strengthen the linkages that improve an innovation system.

We propose conducting further research on the effect of tax credit programs on the geographical allocation of resources by multinationals to perform innovation in industrializing economies. This study suggests that tax credits programs can help developing countries to attract investment, perform valuable innovations, develop and retain local talent, and enhance their world competitiveness.