

Spatial distance and economic performance in European multi-unit firms (di Giulio Cainelli, Valentina Giannini, Donato Iacobucci)

by Valentina Giannini | Giulio Cainelli | Donato Iacobucci | Università Politecnica delle Marche |
Università degli studi di Padova | Università Politecnica delle Marche

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This paper investigates how the geographic dispersion of multi-unit firms affects the performance of its individual units. The location choices in multi-unit firms face a trade-off between the advantages of proximity for the monitoring and control of business units and the need to acquire specific resources or skills and technologies in distant locations. To analyse this issue, we consider the location of subsidiaries of European business groups and investigate, taking into account for the technological proximity and country-institutional factors, how subsidiary economic performance is influenced by the distance from the headquarters. We use a sample of 40,946 European business groups controlling about 107,000 subsidiaries located in Europe. The empirical analysis confirms our expectations. The geographic spread in terms of physical distance or travel time has a negative impact on the economic performance of subsidiaries. Subsidiaries perform better when they are closer to headquarters. We also find the same negative relation between distance and performance when considering the technological distance between the headquarters and its subsidiaries. The country and institutional factors play different roles in the proximity or dispersion of units from its headquarter.