

## The Relationship between Intermediate Input Source and Innovation Performance in Business Group-Affiliated Firms

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**Abstract :** Although firm innovation is a crucial factor for enhancing their competitive advantage in the current context of globalization, achieving innovations poses a significant challenge because of the degree of expertise required and the associated financial costs. Firms affiliated with business groups can choose whether their purchases of intermediate inputs are domestic (i.e., national source) or from foreign markets (i.e., international source) and whether the supplier firms are affiliated (i.e., internal source) or non-affiliated (i.e., external source). This has led to studies investigating the role of different sources of intermediate inputs in promoting innovation performance. The present study seeks to fill this gap by exploring the relationship between the source of intermediate inputs and innovation performance in firms belonging to Spanish non-MNE groups. For this purpose, we will distinguish among three intermediate input sources, international sourcing, domestic external sourcing, and internal sourcing, as their choice could be induced by different causes and have different consequences. Finally, it is analyzed radical and incremental innovation as innovation performance because they are closely related to the concept of technological development and reflect different innovation behavior. The paper includes a sample of around 4,100 firm-year observations of manufacturing firms (non-MNE) belonging to groups located in Spain between 2006 and 2020.

**Keywords :** intermediate input source, innovation performance, business group affiliated firms, Spain

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