Where to Set up R&D Lab Abroad? Positive outcomes and direction of cross-national distance

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Published Online: 30 Nov 2017 | https://doi.org/10.5465/ambpp.2016.13515abstract

Abstract

This study investigates the influence of cross-national economic and intellectual property rights (IPR) distance on the decision of setting up different types of research and development (R&D) laboratories abroad. Drawing on recent developments of research on cross-border distance, we suggest that cross-national economic distance positively influences the decision of setting up adaptive R&D laboratories as the knowledge-exploiting mission of this type of laboratory enables firms to profit from the opportunities that different cross-national economic conditions offer. In addition, we propose that the decision of setting up innovative R&D laboratories critically depends on the direction of cross-national IPR distance. Firms are more (less) likely to set up innovative R&D laboratories in host countries with IPR regimes stronger (weaker) than in their home country as the knowledge-exploring mission of this type of laboratory is extremely sensitive to host country relative appropriability conditions. Innovative R&D laboratories need to greatly engage with local actors and, hence, are exposed to risks of technological leakages that firms originating in stronger IPR regimes may be unable to limit. Using data on R&D investments of world’s largest firms in 15 countries, we estimate gravity models and find support for our arguments.