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The main drivers of R&D location decisions of EU based MNEs

Andries Brandsma, Michele Cincera, Claudio Cozza, Alexander Tübke (IPTS)

Roughly half of the firms in the third survey on trends in business R&D investment (EC, 2008) consider their home country to be the most attractive location for R&D. For the other ones, the US, just ahead China and India, is most often cited as being the most attractive economy for expanding R&D investment.

In the light of the current discussion about R&D relocation trends, this paper aims at investigating in a quantitative way the main factors explaining both actual and expected R&D investment effort and location in the world by the largest R&D spenders in the EU together with the main determinants from both the supply and the demand side for increasing these activities.

The empirical analysis is based on an original unbalanced panel of the top European R&D firms over the 2005-2008 period which represents about one fourth of the total R&D amount invested by EU companies worldwide.

The availability of researchers and the access to specialized R&D knowledge emerge as the main drivers of firms' R&D location decisions. Though of less importance, considerations on the costs of employing researchers appear also to matter for firms preferring a location outside their home country. Then, in line with the findings in the literature, market pull and exploiting technological opportunities appear to be the most important drivers for increasing R&D investments. For some firms, competition factors in particular concerning Chinese and Indian companies appear also to play an important role.

In terms of policy implications, these results support the implementation of policies in the short term aimed at reducing the costs of investing in R&D activities (direct subsidies and fiscal incentives) as well as policies in the long run for promoting skill and human capital formation.