

John Cantwell/ Ram Mudambi

The Location of MNE R&D Activity: The Role of Investment Incentives

Abstract

In recent years, MNEs have been consolidating the activities of their subsidiaries. This has typically involved granting wide strategic mandates to some subsidiaries, while at the same time scaling back the activities of others. One consequence of this consolidation is that considerable efforts are now being expended by government inward investment agencies (IIAs) in seeking to attract MNE subsidiaries with broad mandates. This is because such investments are considered to be highly desirable in terms of their effects on local wealth generation.

Subsidiaries with strong research and development (R&D) mandates are precisely the type of firms that IIAs most wish to attract. However, successful R&D activities require the location to have a rich resource base. An important question is whether IIA investment incentives can directly influence the location of R&D investment by MNEs or whether they are dominated by more basic location considerations of such as risk, local experience and infrastructure. This question is addressed empirically, using a data set constructed from a survey of the UK subsidiaries of engineering and related MNEs.

Key Results

The results suggest that incentives are dominated by basic location factors. However, they are found to have an incremental effect and with the strongest effects being traced to tax credits. This suggests that locations that have reached MNE location short-lists can gain from the provision of incentives.

Authors

Professor John Cantwell, Professor, Graduate Centre for International Business, University of Reading, RG6 2AA, UK.

Dr Ram Mudambi, Reader in International Business, ISMA Centre, University of Reading, RG6 6BA, UK *and* Associate Professor, Fox School of Business & Management, Temple University, Philadelphia, PA 19122, USA.

Abbreviated Heading: **The Location of MNE R&D Activity**