

Profiting for the Innovation of Others

ABSTRACT

Although recent theoretical work suggests that superior performance requires optimal decisions about the use of external scientific know-how, there is little empirical research to test such predictions. This study examines how the strategic decision of innovative firms to rely exclusively on in-house R&D or to *buy* external know-how from other R&D organizations influences financial performance and R&D efficiency. Drawing on various theoretical frameworks, we develop hypotheses which are tested with data on 109 chemical firms. The findings indicate that, on average, buying know-how from outside may enhance firm profitability. However, although the use of external scientific know-how that firms buy from *foreign* organizations is positively associated with performance, this relationship is reversed when the effect of *domestic* external know-how is considered. We also find that external know-how has an adverse effect on firms' ability to develop innovations internally, lowering the payoff of their own research. One of the implications is that despite some profitability improvements, innovative firms that rely on the know-how of others may be left without the internal capabilities that are needed to survive intense rivalry.

Brief profile

Dr. Nicolas Forsans is the Director of James E Lynch India and South Asia Business Centre, Centre for International Business, University of Leeds (UK). Dr. Forsan's research interest is centered on three main areas, i) the impact of regional trade agreements on the foreign market servicing strategies of multinational firms (exports, licensing, FDI), in particular in North America, ii) corporate strategies of multinational firms with regard to emerging economies such as India, and iii) the emergence of "third world" multinationals, the increasing importance of Indian business groups and their internationalization strategies. His work has appeared in various high quality international business publications, including *Management International Review*, the *Journal of Business Research*, the *World Economy* and the *United Nations' Transnational Corporations*.