Marshallian Forces and Governance Externalities: Location Effects on Contractual Safeguards in R&D Alliances

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Abstract:
We examine the impact of geographic location of alliance activities on the design of safeguards in contracts governing R&D partnerships. Joining research on agglomeration and alliance governance, we argue that the Marshallian agglomerative forces at work in a given location produce governance-related externalities that extend beyond productivity-related externalities considered in previous research. We investigate how location characteristics linked to Marshallian forces such as local knowledge spillovers, R&D rivalry, dense industry employment, and the strength of professional organizations have an impact on the specification of formal governance mechanisms. In particular, these Marshallian forces have a bearing on formal governance mechanisms that safeguard the execution of the R&D partnership, such as joint administrative interfaces and termination provisions. We analyze R&D partnerships between biotech and pharmaceutical firms and find that misappropriation hazards arising from greater knowledge spillovers and R&D competition in the region where R&D activities are located promote the use of these formal governance mechanisms in R&D partnerships. We also find that factors supporting thick interpersonal networks such as the intensity of sectoral employment and the strength of professional bodies reduce the use of formal governance mechanisms in R&D partnerships.

Date: September 18, 2017 (Monday)
Time: 10:30 a.m. — 12:00 noon
Language: English
Venue: Room 1236, 12/F, K.K. Leung Building, The University of Hong Kong

All Interested are Welcome