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► **To cite this version:**

Catherine Lecocq, Bart Leten, Jeroen Kusters, Bart van Looy. Do Firms Benefit from Being Present in Multiple Technology Clusters? An Assessment of the Technological Performance of Biopharmaceutical Firms.. *Regional Studies*, 2011, pp.1. 10.1080/00343404.2011.552494 . hal-00680011

HAL Id: hal-00680011

<https://hal.science/hal-00680011>

Submitted on 17 Mar 2012

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Journal:	<i>Regional Studies</i>
Manuscript ID:	CRES-2009-0211.R2
Manuscript Type:	Main Section
JEL codes:	O30 - General < O3 - Technological Change Research and Development < O - Economic Development, Technological Change, and Growth, R12 - Size and Spatial Distributions of Regional Economic Activity < R1 - General Regional Economics < R - Urban, Rural, and Regional Economics, R30 - General < R3 - Production Analysis and Firm Location < R - Urban, Rural, and Regional Economics
Keywords:	Cluster, Biotechnology, Innovation

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5 An Assessment of the Technological Performance of Biopharmaceutical Firms.
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(Received July 2009; in revised form December 2010)

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6 ABSTRACT
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8 Firms active in knowledge-intensive fields are increasingly organizing their R&D
9 activities on an international scale. This paper investigates whether firms active in
10 biotechnology can improve their technological performance by developing R&D
11 activities in multiple technology clusters. Regions in the Europe, Japan and US,
12 characterized by a critical mass in terms of technological activity within
13 biotechnology, are identified as clusters. Fixed-effect panel data analyses with 59
14 biopharmaceutical firms (period 1995-2002) provides evidence for a positive, albeit
15 diminishing (inverted-U shape) relationship between the number of technology
16 clusters in which a firm is present and its overall technological performance. This
17 effect is distinct from a mere multi-location effect.
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34 Keywords: Cluster; Innovation; Biotechnology.
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36 JEL classification: O30, R12 and R30.
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INTRODUCTION

Corporate activities, especially in knowledge-intensive industries, display a tendency to cluster geographically (AUDRETSCH and FELDMAN, 1996; FELDMAN and FLORIDA, 1994). According to MARSHALL (1920), presence in clusters enhances the innovative capacity of firms through the presence of localized knowledge spillovers, and the access to a pool of highly-skilled labor and specialized suppliers that agglomerate in such regions. Innovation dynamics in clusters are further stimulated by the presence of local competition and peer pressure among firms (PORTER, 1990). Empirical studies stemming from the economic geography literature indeed provide evidence that firms located in clusters are more innovative than counterparts located elsewhere (BAPTISTA and SWANN, 1998; BATEN et al., 2007; BEAUDRY and BRESCHI, 2003; DEEDS, DECAROLIS and COOMBS, 1999; VAN GEENHUIZEN and REYER-GONZALES, 2007). At the same time, little is known about the relationship between presence in *multiple* clusters and the overall technological performance of firms. Exploring this relationship is relevant because firms increasingly organize R&D activities on an international scale whereby knowledge from different regions is being accessed. (GASSMAN AND VON ZEDTWITZ, 1999; KUEMMERLE, 1997; GRANSTRAND, 1999). In this paper, we engage in such an analysis by means of a panel dataset of 59 biopharmaceutical firms (period 1995-2002). The focus of the paper is on the relationship between the technological performance of consolidated firms (i.e. the parent firm and its subsidiaries) and the number of technology clusters in which they engage in technological activities. Clusters are identified as regions within the United States, Europe and Japan with a critical mass of technological activities in the field of biotechnology. Whereas previous economic geography studies controlled only to a

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3 limited extent¹ for the heterogeneity of firms in terms of innovative efforts and
4 capabilities, this study uses fixed effect panel data techniques and includes controls
5 for time-varying firm differences in R&D expenditures and past experience. This
6 allows to distinguish cluster presence from other firm-specific characteristics
7 (BEUGELSDIJK, 2007). The analyses provide evidence of an inverted-U shape
8 relationship between the number of technology clusters in which a firm is present and
9 its overall technological performance. This effect is distinct from a mere multi-
10 location effect.
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22 The remainder of the paper is organized as follows. First, an overview of prior
23 research on clusters and firm performance is provided, resulting in hypotheses on the
24 relationship between cluster presence and firm's technological performance. Next, the
25 data sources and variables used in this study are presented, followed by the empirical
26 results. Conclusions, limitations and directions for further research are discussed in
27 the final section.
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40 INDUSTRY AND TECHNOLOGY CLUSTERS

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42 The clustering of industrial activity in well-defined and relatively small geographic
43 areas has been observed for a long time by economic geographers and regional
44 scholars (e.g. MARSHALL 1920; KRUGMAN 1991; PORTER 1990). Famous examples of
45 industrial clusters include Detroit's car manufacturing industry, the entertainment
46 industry of Hollywood and the fashion industry in northern Italy. Clustering remains a
47 striking feature of national and regional economies, despite the availability of better
48 transportation and communication infrastructure and the presence of global markets
49 from which capital, talent and technology can be sourced (PORTER, 1998; 2000).
50 Following the success of Silicon Valley in California and Route 128 in Boston
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3 (SAXENIAN, 1994), there has been a wide interest of researchers and policy makers in
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5 the innovative and economic potential of technology clusters. Unlike industry-focused
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7 clusters, where inter-firm connections are predominantly vertical, technology clusters
8
9 exhibit a more lateral structure consisting of direct and indirect competitors
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11 developing diversified applications of the same core technology within different
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13 markets or industries (ST. JOHN and POWDER, 2006). Value dynamics in technology
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15 clusters or “technology districts” build on unique technological resources - the
16
17 technological infrastructure - which supports firms’ innovation activities (FELDMAN
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19 and FLORIDA, 1994; STORPER, 1992). Sources of knowledge in technology clusters are
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21 diverse, ranging from universities and public research institutes to firms, suppliers and
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23 customers.
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30 MARSHALL (1920) highlighted three incentives for firms to cluster
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32 geographically: (i) broader access to specialized, highly-skilled labor; (ii) access to
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34 specialized suppliers; and (iii) the presence of inter-organizational knowledge
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36 spillovers among similar firms². The broad concept of knowledge spillovers is
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38 probably the most frequently invoked source of agglomeration economies (HEAD et
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40 al, 1995) and has been widely investigated in the literature (e.g. DÖRING and
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42 SCHNELLENBACH, 2006; BRESCHI and LISSONI, 2001). Knowledge spillovers arise
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44 through labor mobility (ALMEIDA and KOGUT, 1999) and exchange processes
45
46 involving competitors, suppliers, customers and providers of professional services
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48 (VON HIPPEL, 1988; ROSENKOPF and ALMEIDA, 2003). They allow firms to achieve
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50 similar R&D results faster and/or with fewer resources. Empirical work has shown the
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52 existence and geographically bounded nature of knowledge spillovers (JAFFE et al.,
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54 1993; ALMEIDA and KOGUT, 1999; VARGA, 2000; RODRÍGUEZ-POSE and CRESCENZI,
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56 2008). Spillovers are more local to the extent that the relevant knowledge base is tacit
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3 (POLANYI, 1966; NONAKA, 1994; VON HIPPEL, 1994). This is particularly true for
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5 emerging, complex technologies like biotechnology. PORTER (1990; 1998) provided
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7 two additional reasons why firms located in clusters are more innovative than firms
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9 located outside clusters. First, opportunities for innovation (both new buyer needs and
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11 new technological opportunities) are more visible in clusters. Next, competitive
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13 and/or peer pressure among local firms stimulates firms to be more innovative and
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15 increases the efficiency of their operations.
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20 While clusters are often associated with positive effects on firm performance,
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22 potential disadvantages can be noticed as well. First, resources (e.g. labor, real estate,
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24 professional services) might be significantly more expensive in clusters due to
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26 congestion effects (BEAUDRY and BRESCHI, 2003). Second, cluster membership might
27
28 lead to an inward orientation whereby relevant developments situated outside the
29
30 cluster are neglected (PORTER, 1998). Firms located in clusters might also be
31
32 confronted with higher levels of unintended (outward) knowledge spillovers, affecting
33
34 the firm's competitive advantage in a negative way (SHAVER and FLYER, 2000).
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36 While such disadvantages might occur, they are not directly relevant for the research
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38 questions addressed in this paper as the focus is on the firm's technological
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40 performance (as opposed to the overall competitive position of the firm or the
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42 efficiency implications of being present in clusters).
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53 CLUSTERS AND FIRM PERFORMANCE

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55 The capacity of firms to innovate is not limited to the boundaries of the firm but
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57 increasingly depends on external resources that agglomerate in specific places
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59 (FELDMAN and FLORIDA, 1994; STORPER, 1992). If knowledge spillovers are an
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3 essential characteristic of clusters, the beneficial effects from being present in a
4 cluster should manifest themselves in the first place on the innovative output of firms
5 rather than on the firm's financial or growth performance (BAPTISTA and SWANN,
6 1998). Studies in the economic geography literature have investigated whether firms
7 (plant level) located in an industrial or technology cluster are more innovative than
8 firms outside clusters³. These studies can be classified in two groups based on the
9 methodologies used to measure clusters.
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20 A first set of studies investigated whether firms located in industrial clusters
21 are more innovative. The concentration of industrial activity in a region is measured
22 by sector level employment data. BAPTISTA and SWANN (1998) found a positive effect
23 of own sector employment in the region, on the likelihood of manufacturing firms in
24 the United Kingdom to innovate. In contrast, BEAUDRY and BRESCHI (2003) found no
25 effect of own sector employment on firms' innovative performance for a sample of
26 UK and Italian firms. Only the concentration of innovative firms (and the size of their
27 accumulated knowledge base) in the own industry had a positive impact on the
28 technological performance of firms. Similar results were found in the study of BATEN
29 et al. (2007) for firms trading in the state of Baden (Germany) around 1900. These
30 findings suggest that for firms' innovative performance, the presence of critical mass
31 in terms of knowledge creation activities in a region is more important than the
32 overall industrial activity per se.
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51 A second set of studies classified regions in clusters and non-clusters based on
52 the amount of technological activity observed in the region, and examined whether
53 firms located in technology clusters are more innovative than firms located elsewhere.
54 DEEDS et al. (1999) classified eight regions in the United States (MSA level) that host
55 the largest number of biotechnology firms, as clusters and found that biotechnology
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3 firms located in clusters are more innovative than firms located outside the clusters.
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5 For the Netherlands, VAN GEENHUIZEN and REYER-GONZALES (2007) defined clusters
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7 as regions with at least one knowledge institute and 10 young entrepreneurial
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9 biotechnology firms. Their analyses showed no significant effect from cluster location
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11 on the innovativeness of biotechnology firms. However, when only the largest and
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13 oldest biotechnology cluster in the Netherlands - the Leiden region - is considered,
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15 cluster presence had a significant positive effect on firm performance. These results,
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17 again, suggest that a critical mass of technological activity is needed before positive
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19 cluster effects can be observed at level of the firm.
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25 Aforementioned economic geography studies use cross-sectional data at the
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27 level of single plants to investigate whether clusters are supportive to firms'
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29 innovation activities. While the results indicate that firms in clusters are more
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31 innovative than firms located elsewhere, they do not provide evidence whether firms
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33 can improve their technological performance by extending their presence within
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35 multiple clusters. This research question is addressed in this paper. More specifically,
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37 the relationship between the number of technology clusters in which a firm is present
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39 and its overall technological performance is studied. Exploring this relationship is
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41 relevant because firms increasingly organize R&D activities within multiple units -
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43 located in different regions - to benefit from agglomeration externalities (GASSMAN
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45 and VON ZEDTWITZ, 1999; KUEMMERLE, 1997; GRANSTRAND, 1999; CANTWELL and
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47 PISCITELLO, 2005). In so doing, R&D location choices are not confined to national
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49 borders, but increasingly take place on a global scale. As such, empirical analyses
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51 assessing the impact of cluster presence should not be limited to one particular
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53 country or region, but should consider technology clusters on a more global scale.
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3 Likewise, on the firm level, studying the impact of cluster presence requires taking
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5 into account the location of all firms' R&D facilities (headquarters and subsidiaries).
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8 In this paper, such an analysis is performed by means of a panel dataset
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10 consisting of the technological activities of 59 biopharmaceutical firms (1995-2002).
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12 In line with economic geography studies, locations of firms' R&D activities
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14 (including cluster presence) are analyzed at the regional level. Technology clusters are
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16 defined as worldwide leading regions in technology development. The models in this
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18 study control for firm-level heterogeneity in innovative efforts and capabilities by
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20 employing fixed effects panel data techniques and including time-varying, firm-level
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22 control variables (R&D expenditures and innovation experience). This allows to
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24 clearly distinguish between cluster presence and other, firm-specific, characteristics
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26 (BEUGELSDIJK, 2007).
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31 A positive effect on a firm's overall technological performance is expected
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33 from being present in multiple clusters, as this coincides with an increased access to
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35 state-of-the-art knowledge available within each of these regions. At the same time,
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37 the more one is already involved in different clusters, the smaller the additional
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39 effects in terms of access to new, relevant knowledge might become. In addition, the
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41 costs of coordinating multiple R&D units and leveraging and integrating knowledge
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43 from multiple locations will increase with the number of locations in which a firm is
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45 present. Building on the aforementioned research, it is expected that location benefits
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47 will principally stem from being present in technology clusters with a critical mass of
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49 relevant knowledge. Therefore, the effects of cluster membership on the overall
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51 technological performance of firms should be distinctive from a mere multiple
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53 location effect. Taken together, these arguments lead to the following set of
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55 hypotheses:
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3 Hypothesis 1: Firms improve their technological performance when extending their
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5 presence in technology clusters.
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8 Hypothesis 2: Firms extending their presence in technology clusters will gain
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10 additional benefits in terms of technological performance, albeit of a
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12 diminishing nature (inverted U-shape relationship).
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15 Hypothesis 3: The relationship between cluster membership and overall technological
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17 performance is distinct from a mere multi-location effect.
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23 DATA AND METHODOLOGY

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26 Panel data on the technological activities of 59 biopharmaceutical firms with parent
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28 firms located in the United States, Europe and Japan, have been collected to study the
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30 relationship between the location of R&D activities in multiple clusters and regions
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32 and the overall technological performance of firms. Patent data are used to create
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34 indicators of firms' technological activities (location and performance) and to identify
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36 biotechnology clusters within the United States, Europe and Japan . The use of patent
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38 data has several advantages (PAVITT, 1985; GRILICHES, 1990). They are easy to
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40 access, cover long time series and contain detailed information on the technological
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42 content, owners and inventors of patented inventions. This allows to mark out
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44 biotechnology patents, construct indicators of the technological performance of firms
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46 and regions, and identify the locations where inventions took place. At the same time,
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48 patent indicators also have some deficits: not all inventions are patented, patent
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50 propensities vary across industries and firms, and patented inventions vary in
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52 technical and economic value (MANSFIELD, 1986; GAMBARDELLA et al, 2008). One
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54 can lessen these problems by restricting patent analyses to technologies with high
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56 propensities to patent such as biotechnology (ARUNDEL and KABLA, 1998), and by
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3 weighting patent counts (technological performance indicator) by the number of
4 forward citations received (HALL et al, 2005; TRAJTENBERG, 1990; HARHOFF et al.,
5 1999). Despite their shortcomings, there is simply no other indicator that provides the
6 same level of detail on firms' technological activities as patents do (GRILICHES,
7 1990). Further, studies have found a strong correlation between patent counts and
8 other technology indicators (e.g. new product announcements and expert opinions) on
9 the level of firms (HAGEDOORN and CLOODT, 2003; NARIN and NOMA, 1987) and
10 regions (ACS et al, 2002), establishing patents as a valid indicator of novel
11 technological activity.
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25 In this study, patent indicators are based on data from the European Patent
26 Office (EPO). Patent application data rather than patent grants are used because of the
27 extensive time periods observed between application and granting decisions at the
28 European Patent Office (especially for biotech)⁴. The geographic location of
29 inventions is identified via inventor address information (LECOQ et al., 2008).
30 Allocation based on inventor addresses is the most commonly used approach in patent
31 studies since – especially for large firms - allocation based on assignee addresses
32 might signal the location of corporate headquarters rather than the research laboratory
33 where the invention took place (DEYLE and GRUPP, 2005; KHAN and DERNIS, 2006).
34 The use of inventor addresses may however also introduce some bias since inventors
35 may not live in the same region as they work. LANDONI et al. (2008) performed a
36 validation exercise where both allocation methods (inventor and applicant addresses)
37 are compared with the real R&D locations of inventions. This work confirmed the
38 superiority of the inventor's address criterion, for patent statistics at a fine-grained
39 geographical level.
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Sample of Biopharmaceutical Firms

Parent firms with a large biotech patent portfolio are identified from a dataset with all EPO patent applications in the field of biotechnology (time period 1978-2001). This dataset is the result of a study by GLÄNZEL et al. (2004) that delineates technological activity in the field of biotechnology⁵. The selected firms are active in different sectors: mostly in biotechnology, the pharmaceutical or chemical industry, but the list of parent firms also includes producers of consumer products, energy concerns and breweries. For consistency of the sample, only the biopharmaceutical firms (75 largest patenting firms) were retained. Due to missing data on firm R&D expenditures or incomplete information on the group structure of parent firms, the list of firms was further reduced to 59 biopharmaceutical firms. All these firms have headquarters in the United States, Japan or Europe (EU-15 and Switzerland). Appendix 1 contains a complete list of the firms under study.

For this sample of 59 biopharmaceutical firms, patent data were collected at the consolidated parent level, i.e. comprising headquarters and all majority-owned (share > 50%) subsidiaries of the parent firm. This consolidation process implied the mapping of all changes in the group structure of the parent firms due to acquisitions, mergers, green-field investments and spin-offs during the period 1995 to 2002. For this purpose, yearly lists of subsidiaries included in annual reports were used, as well as yearly 10-K reports filed with the SEC in the United States and, for Japanese firms, information on foreign subsidiaries published by Toyo Keizai in the yearly Directories of Japanese Overseas Investments. Using consolidated patent data is important to get a complete picture of firms' technological activities as a significant part of large firms' patents are not filed under the parent firm name (LETEN et al,

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3 2007). Firm financial data are also collected at the consolidated firm level via
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5 corporate annual reports, Worldscope and Compustat financial databases.
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8 9 Biotechnology Clusters

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11 Biotechnology is a knowledge-intensive technology field, which from its origin has
12 developed within a limited number of regions, such as California and the Boston area
13 in the United States, and Cambridge in the United Kingdom. To identify
14 biotechnology clusters worldwide, the aforementioned dataset with all EPO patent
15 applications in the field of biotechnology is used (Glänzel et al., 2004). The dataset
16 shows that, for the period 1990-1999, almost all patenting activity in the domain of
17 biotechnology (94%) takes place in the United States, Europe (EU-15 and
18 Switzerland) and Japan. No other region has sufficient patent applications to qualify
19 as a cluster.
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33 In this study, the focus is on regions in the United States, Europe and Japan. It
34 is important to select a spatial level of analysis which is comparable across continents
35 in terms of size (population). Regions are therefore defined at the level of the
36 following national subdivisions: European NUTS 1 regions (n=73), US states (n=50),
37 and Japanese prefectures (n=47)⁶. Cluster boundaries do not necessarily coincide with
38 the boundaries of such administrative regions. Clusters may well spread over more
39 than one region (e.g. the tri-state cluster in the states of New York, New Jersey and
40 Pennsylvania and the cluster covering the prefectures of Tokyo and Kanagawa).
41 Alternatively, regions may enclose more than one cluster (e.g. the triangle San
42 Francisco - San Jose - Sacramento, better known as Silicon Valley, and the region
43 between Los Angeles and San Diego in the state of California). Despite these
44 concerns, an analysis of regions coinciding with the boundaries of the administrative
45 subdivisions was chosen, as they provide comparable regional units of analysis.
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The amount of biotechnological R&D activities in a region is measured by the number of EPO patents in that region during the period 1990-1999. Patent applications are allocated to regions based on inventor addresses. When a patent contains multiple inventors in different regions, the patent is fully counted in each region. Table 1 shows the 50 regions with the highest technological performance in the field of biotechnology. A region is defined as a biotechnology cluster if it contains at least 2.5% of the total number of EPO patent applications in the field of biotechnology. Twelve regions satisfy this condition. Together they account for 50% of biotechnology patents worldwide. Most biotechnology clusters are located in the United States, with a clear supremacy of the state of California which accounts for almost 15% of all biotechnology patents. Other US regions with a substantial amount of activity in biotechnology are Massachusetts, Maryland, Pennsylvania, New York and New Jersey. Europe has three top regions: the region of Paris (France) , the region of Cambridge, Bedfordshire, Hertfordshire and Essex (East Anglia. United Kingdom) and the region of Munich (Bayern, Germany). With Tokyo, Kanagawa and Osaka, Japan counts three top regions in biotechnology.

Insert Table 1 about here

Firm Variables and Model

Dependent Variable

The dependent variable in the study is the technological performance of firms in biotechnology. This is measured by the number of biotech patent applications of a firm in a certain year, weighted by the number of forward patent citations received over a fixed four year time window⁷. The ‘weighting’ is done to account for variation in the technological and economic importance of patented inventions (ALBERT et al., 1991, HARHOFF et al., 1999; TRAJTENBERG, 1990; HALL et al, 2005)⁸.

The dependent variable is a count variable with only non-negative integer values. In this case, non-linear count data models are preferred to standard linear regression models as the former explicitly take into account the non-negativity and discreteness of the dependent variable (CAMERON and TRIVEDI, 1998). Negative binomial models used in the study allow for overdispersion in the dependent variable. To control for the presence of unobserved firm-specific effects (which may correlate with, and bias the effect of explanatory variables in the models, if not controlled for), fixed effects panel data estimators are used. This estimation technique removes (time constant) unobserved firm-specific factors by time-demeaning all variables (dependent and explanatory) before performing regressions (WOOLDRIDGE, 2001).

Presence in Technology Clusters

To identify the regions in which firms are present, inventor address information on the biotechnology patents of the firms is used. More specifically, a firm is considered to engage in biotechnology R&D activities in a region if the firm owns patents with at least two inventors residing in that region during the last two years. Given the fact that

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3 R&D collaboration is quite widespread in the field of biotechnology (LECOCQ and
4 VAN LOOY, 2009)⁹, it was decided to consider presence in a region only on the firm's
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6 fully owned patents, thus reflecting the number of regions (clusters and other regions)
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8 in which a firm is present through its fully owned or single parent patents. For co-
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10 owned patents, i.e. patents with multiple assignees from different parent
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12 organizations, it is not possible to identify to which assignee an inventor belongs.
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14 Therefore using inventor address information on such patents may not only pick up a
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16 firm's own R&D locations, but also the R&D locations of co-assignees. It should be
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18 noted that our R&D location variable, even after correcting for co-assigneeship, might
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20 contain additional locations through the location of co-inventors not belonging to the
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22 firm. This is for instance the case when a firm engages in collaboration with a
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24 university or other organization, while retaining full ownership of the IP. The location
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26 variable will then be overestimated, however, only to the extent that the firm is
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28 collaborating with at least two inventors that are located outside the firm's own
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30 region. Despite this shortcoming, patent data are the best available public source to
31
32 systematically map the biotech R&D locations of global firms. Other sources of
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34 information such as corporate annual reports also show some limitations: they often
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36 do not specify the exact location (region) of firm facilities and the type of activities
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38 (e.g. research, production, administration, sales) undertaken at different locations.
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40 Corporate annual reports also do not provide information on the type of research
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42 activities (biotechnology versus other research fields) in R&D establishments. This is
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44 however important information, as we study the locations where firms engage in
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46 biotech R&D activities.
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Three indicators related to the location of the biotechnology R&D activities of a firm are created: (i) “clusters”, reflecting the number of R&D biotechnology clusters in which a firm is present, (ii) “other regions”, reflecting the number of other regions, not defined as clusters, in which a firm undertakes R&D activities, and (iii) “countries”, the number of countries in which a firm is present¹⁰. To test for non-linear relationships between the R&D location variables and the firm’s overall technological performance, both linear and squared terms of the location variables are included in the empirical models. Applying fixed effect panel data models require that there is enough within-firm variation in the number of R&D locations over time. This is the case for the sample firms, as they all engaged in M&A activities, opened new laboratories and/or closed down existing ones over the time period 1995-2002.

Control Variables

Several (time varying) variables that might affect the technological performance of firms are included as control variables in the analyses. First, an indicator for the size of a firm’s existing technology portfolio in biotech is included, measured by the number of biotech patents applied for by the firm in the last 5 years. In analogy to the dependent variable, this variable is weighted by the number of forward patent citations received over a fixed four year time window to account for differences in patent quality. Firms with large technology portfolios are more experienced in innovation, and may be better positioned to develop new technological competences (NESTA and SAVIOTTI, 2005). In previous studies, a time period of 5 years has been considered as appropriate for assessing the validity of knowledge bases in a given technology (STUART and PODOLNY, 1996; AHUJA and LAMPERT, 2001; LETEN et al., 2007). Second, differences in the size of firms’ R&D effort are included, measured by

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3 one-year lagged R&D expenditures¹¹. Firms that have more R&D resources, are
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5 expected to have a higher technological performance. Third, year dummies are
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7 included in the models to control for changes over time in the propensity of firms to
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9 patent.
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12 Descriptive statistics and correlation coefficients for the dependent and
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14 explanatory variables are reported in table 2. The mean (yearly) number of citation-
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16 weighted patents for the firms in the sample is 21, and firms' average R&D
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18 expenditures amount to 452 million US dollars a year. The sample firms are, on
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20 average, present in 1.8 biotechnology clusters and 2.4 other regions, spread over 2
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22 countries. None of the reported correlations are excessively high.
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The results of the fixed effects negative binomial models on the relation between cluster membership and firms' overall technological performance are presented in Table 3. Model 1 includes only the control variables. Both the lagged biotech patent portfolio and the R&D expenditure variable are positive and significant. In model 2, the "clusters" variable is introduced, which indicates the number of clusters in which a firm is involved when developing R&D activities. The cluster variable is positive and significant, indicating that firms can enhance their technological performance by extending their R&D activities in multiple technology clusters (confirming hypothesis 1). In model 3, the "other regions" variable is added to the set of control variables, reflecting the number of regions, outside clusters, in which a firm develops R&D

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3 activities. This variable is not significant. The log likelihood ratio test reveals that
4 including the other regions variable does not add significantly to the explanatory
5 power of the model (Chi^2 LR test = 1.89, $p=0.17$). Model 4 includes both the
6 “clusters” and “other regions” variables. A positive and significant coefficient is
7 found for the “clusters” variable, while the coefficient for the “other regions” variable
8 remains insignificant. Together, the findings from models 2 to 4 suggest that it is the
9 presence in technology clusters, and not in other regions, that influences the
10 technological performance of firms.
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29 Model 5 is the most complete model and includes, besides the linear terms,
30 also the quadratic terms of the “clusters” and the “other regions” variables. Including
31 quadratic terms allows to check for non-linear relationships between the location
32 variables and firm performance. The log likelihood ratio test indicates that model 5
33 significantly adds to model 4 in terms of explanatory power (Chi^2 LR test = 7.43,
34 $p=0.02$). The “clusters” variable has a positive and significant linear term, and a
35 negative and significant quadratic term. This confirms hypothesis 2: there is an
36 inverted U-shape relationship between the number of technology clusters in which a
37 firm engages in R&D activities and the firm’s total technological performance. The
38 coefficients of the “clusters” variables in model 5 further indicate that
39 biopharmaceutical firms should – ideally – be present in 4 biotechnology clusters.
40 Since the average biopharmaceutical firm in the sample is present in less than 2
41 biotech clusters, most firms can still improve their technological performance by
42 setting up R&D activities in additional biotechnology clusters¹². In line with previous
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3 models, no significant effects are found for the “other regions” variables in model 5
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6 (confirming hypothesis 3).
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11 In model 6, an additional regression is performed to verify whether the cluster
12 effect is distinctive from a mere R&D internationalization effect. Therefore, the linear
13 and quadratic term of the countries variable, reflecting the number of countries in
14 which a firm is present, are added to the initial model. The “countries” variables are
15 not significant, and the model does not significantly improve compared to the model
16 containing only the control variables (Chi^2 LR test = 1.57, $p=0.46$). This again
17 confirms that presence in multiple technology clusters and not the mere presence in
18 multiple locations, is contributing to the firms’ overall technological performance.
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CONCLUSIONS

Firms active in knowledge-intensive fields such as biotechnology, are increasingly developing global R&D activities with location choices for an important degree being determined by the presence of local technological capabilities. Studies in the economic geography literature have shown that firms located in regions where technological activities agglomerate (technology clusters), are more innovative than firms located elsewhere (BAPTISTA and SWANN, 1998; BEAUDRY and BRESCHI, 2003; DEEDS, DECAROLIS and COOMBS, 1999; VAN GEENHUIZEN and REYER-GONZALES, 2007; BATEN et al., 2007). However, so far, little is known about the impact of presence in multiple clusters and regions on the technological performance of multi-location firms.

In this study, such an analysis is performed, based on a panel dataset of the largest biopharmaceutical firms - in terms of technological output - in biotechnology. The companies have headquarters in the United States, Europe or Japan, and engage in biotech R&D activities in different locations worldwide. Clusters are defined as worldwide leading regions in terms of technology development in the field of biotechnology. Over the time period under study (period 1995-2002), most of the firms in our sample extended and/or contracted their presence in technology clusters and other regions. In the analyses, firm-fixed effect regression techniques and controls on time-varying changes in R&D efforts and past innovation experience of firms are used to account for firm-level differences in size and innovative capabilities. The findings suggest that biopharmaceutical firms can enhance their technological performance by developing R&D activities in multiple technology clusters. The results also reveal that boundaries exist in terms of the net beneficial effects of

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3 spreading R&D activities over multiple locations. When the number of clusters in
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5 which a firm is engaged becomes too large, increasing costs in terms of coordinating
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7 and integrating geographically dispersed R&D units might start to prevail over the
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9 marginal benefits from getting access to new, relevant knowledge. At the same time,
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11 the observed diminishing effects might also be caused by insufficient critical mass in
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13 terms of technological activity (economies of scale and scope) when R&D activities
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15 become dispersed.
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20 The analyses provide evidence that the cluster effect is distinctive from a mere
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22 multi-location effect: the presence in technology clusters, and not the presence in
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24 multiple regions and countries, is contributing to a better technological performance
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26 of firms. As such, the study provides interesting insights for the R&D
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28 internationalisation literature. Recently, this stream of literature started to investigate
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30 the relationship between the geographical dispersion of firms' R&D activities and
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32 firm performance. Some studies (SINGH, 2008; FURMAN et al, 2005) found negative
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34 effects, while other studies (CRISCUOLO and AUTIO, 2008; IWASA and ODAGIRI, 2004;
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36 PENNER-HAHN and SHAVER, 2005; TODO and SHIMIZUTANI, 2008) reported positive
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38 effects of geographical dispersion on firms' performance. These studies did not take
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40 into account the technological characteristics of regions in which R&D activities are
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42 deployed (clusters or non-cluster regions). This may be one factor explaining the
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44 mixed results reported so far.
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51 At the same time, the observed findings imply limitations as well. First, our
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53 sample consists of firms with large biotech patent portfolio's and, consequently, the
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55 results apply to this type of technology-active biopharmaceutical firms only. Further
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57 research could investigate whether smaller firms in terms of biotech technology
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59 development activities - e.g. entrepreneurial ventures -, also benefit from being
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3 present in (multiple) technology clusters. Next, to retrieve the locations in which firms
4 develop biotechnology research activities, inventor addresses on the firms' fully
5 owned patents are used. While we corrected for co-assigneeship, the derived R&D
6 location variables might still reflect locations of co-inventors not belonging to the
7 firm. This is notably the case when a firm engages in collaboration with a university
8 or other organization, while retaining full ownership of the resulting inventions.
9 Ideally, the locations where firms have R&D establishments (R&D labs) should be
10 distinguished from locations where firms are present through other collaboration
11 modes, such as R&D collaborations or sponsoring of research at universities and
12 public labs. This requires conducting a firm survey since corporate annual reports do
13 not provide sufficiently detailed information on the type and exact location of the
14 research activities (biotechnology versus other fields) performed by firms.
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32 Within this study, the focus was on regional technological capabilities within
33 the same field (biotechnology); as such, a natural extension of the research reported
34 here implies an examination of 'Jacobs' externalities as well. Regions do not only
35 differ in terms of biotechnology capabilities but also with respect to the presence of
36 technological activities within other, related and unrelated, fields. Studying the impact
37 of technological variety in regions on the technological performance of firms, as well
38 as the number of regions needed to access such variety, is an interesting avenue for
39 further research. Closely related, one could study the relative importance of field-
40 specific regional capabilities (MAR externalities) and technological variety (Jacobs
41 externalities) in regions for the technological performance of firms. A final suggestion
42 for further research implies the micro-dynamics underlying the observed positive
43 performance effects from presence in multiple technology clusters. While the findings
44 are interesting within the framework of R&D location decisions, identifying the most
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3 effective mechanisms (e.g. collaboration with local firms and/or research institutes,
4 technology acquisition, researcher mobility, establishment of fully owned research
5 labs) through which firms can benefit from agglomeration externalities in technology
6 clusters might be highly relevant to ensure that firms yield results once location
7 decisions have been made. We do hope that our analyses and findings inspire
8 colleagues in the fields of economic geography and R&D internationalisation to
9 engage in such endeavours.
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24 Acknowledgments: The authors acknowledge the “Steunpunt Ondernemen en
25 Internationaal Ondernemen” and the “Fonds voor Wetenschappelijk Onderzoek”
26 (G.0468.09) for the financial support. We also want to express our gratitude for the
27 comments received from the participants at the Academy of Management Conference
28 (Anaheim, 2008) and the Regional Studies Association Conference (Leuven, 2009).
29 We thank the editor and especially the anonymous referees for their valuable and
30 usefull comments.
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Appendix 1: List of biopharmaceutical firms

Abbott Laboratories	Innogenetics
Affymetrix Inc.	Invitrogen
Ajinomoto	Isis Pharmaceuticals Inc
Amgen	Johnson Johnson
Applera	Kyowa Hakko Kogyo
Astrazeneca	Lonza Ag
Aventis	Martek Biosciences
Beckman Coulter	Maxygen Inc
Becton Dickinson And Company	Merck Co
Biogen Idec	Merck Kgaa
Boehringer Ingelheim	Millennium Pharmaceuticals
Bristol Myers Squibb	Mochida Pharmaceutical
Cell Genesys Inc	Myriad Genetics Inc
Chiron	Nanogen Inc
Diversa Corp	Novartis
Eli Lilly	Novo Nordisk As
Fujisawa Pharmaceutical	Pfizer
Gen Probe Inc	Regeneron Pharmaceuticals
Genelabs	Ribozyme Pharmaceuticals
Genencor	Schering
Genentech Inc	Schering Plough
Genzyme	Scios Inc
Geron Corp	Seikagaku

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Gilead Sciences	Sequenom Inc
Heska Ag	Shionogi
Human Genome Sciences	Solexa
Hybridon	Tanox Inc
Icos Corporation	Transgene
Idexx Laboratories	Wyeth
Incyte Corporation	

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¹ Prior studies used cross-sectional data analysis techniques, and did not control for differences in firms' innovation efforts (absolute level of R&D expenses) when studying the impact of cluster membership on firms' technological performance.

² MARSHALL (1920), ARROW (1962) and ROMER (1986) (henceforth M-A-R) suggest that knowledge spillovers mainly arise among firms in the same industry. On the contrary, JACOBS (1969) believes that the most important knowledge spillovers occur across industries. Empirical results on the relative importance of both types of knowledge externalities are mixed (see for example GLAESER et al, 1992; FELDMAN and AUDRETSCH, 1999; HENDERSON et al, 1995; BEAUDRY and SCHIFFAUEROVA, 2009; FRENKEN et al, 2007).

³ Other studies (ex. HILL and NAROFF, 1984; SWANN and PREVEZER, 1996 and HENDRY and BROWN, 2006) have studied the impact of cluster location on the financial performance and growth of firms.

⁴ We calculated that for EPO biotechnology patents applied for in 1995 and granted by 2006, only 40% of the patents were granted within 6 years after application.

⁵ GLÄNZEL et al. (2004) defined and validated a search key to retrieve all EPO patents in the biotechnology domain in the period 1978-2001.

⁶ The NUTS (Nomenclature of Territorial Units for Statistics) classification, established by Eurostat, provides a breakdown of European countries into regions, primarily based on institutional divisions currently in force in the country. The average population size for NUTS 1 regions in Europe (n=73) is 5.3 million. The United States of America consist of 50 sub-national entities called states, having their own state government with substantial state responsibilities. The average population

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in the US states is 5.5 million. The prefectures of Japan consists of 47 sub-national jurisdictions with an own governor and parliament. The average size of prefectures is 2.7 million inhabitants.

⁷ Forward patent citations are calculated on the EPO patent citation database described in Webb et al. (2005). They are calculated for all citing EPO patents and national patents with EPO patent equivalents.

⁸ In addition to citation-weighted patent counts, we have also used the number of triadic patents as an alternative measure to control for differences in the quality of patents. Triadic patents are patents simultaneously applied at the patent offices of the US, Europe and Japan. Analyses with triadic patents lead to similar results as the analyses presented in table 3.

⁹ In Europe, 12% of biotech patents have multiple assignees (LECOCQ and VAN LOOY, 2009).

¹⁰ Analogous to the cluster and other regions variables, we only count countries from Europe (EU-15 and Switzerland), US and Japan.

¹¹ Firm level R&D expenses specifically related to biotechnology activities are not available.

¹² Only in 7.35% of the observations (firm-year), firms develop biotech activities in more than 4 technology clusters.

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Table 1 Top Biotechnology regions (period 1990-1999)

Region	Country	Patents	%	Cum %
1 California	United States	4,162	15.4%	15.4%
2 Massachusetts	United States	1,853	6.8%	21.6%
3 Maryland	United States	1,285	4.7%	25.5%
4 Pennsylvania	United States	1,264	4.7%	29.6%
5 New York	United States	1,072	4.0%	32.8%
6 New Jersey	United States	1,005	3.7%	34.9%
7 Tokyo	Japan	916	3.4%	38.2%
8 Île De France	France	873	3.2%	41.1%
9 East Of England	United Kingdom	766	2.8%	43.5%
10 Kanagawa	Japan	724	2.7%	45.2%
11 Bayern	Germany	716	2.6%	47.6%
12 Osaka	Japan	672	2.5%	49.7%
13 Baden-Württemberg	Germany	654	2.4%	51.7%
14 Danmark	Danmark	643	2.4%	53.7%
15 Switzerland	Switzerland	626	2.3%	55.4%
16 Washington	United States	619	2.3%	57.1%
17 South East	United Kingdom	614	2.3%	58.8%
18 Hessen	Germany	607	2.2%	60.3%
19 West-Nederland	Netherlands	601	2.2%	62.1%
20 Nordrhein-Westfalen	Germany	534	2.0%	63.4%
21 Illinois	United States	473	1.7%	64.7%
22 Texas	United States	446	1.6%	65.8%
23 London	United Kingdom	444	1.6%	66.6%
24 North Carolina	United States	416	1.5%	67.5%
25 Indiana	United States	406	1.5%	68.7%
26 Ibaraki	Japan	394	1.5%	69.6%
27 Hyogo	Japan	394	1.5%	70.1%
28 Vlaams Gewest	Belgium	389	1.4%	71.2%
29 Connecticut	United States	385	1.4%	71.9%

1					
2	30	Kyoto	Japan	377	1.4% 72.5%
3					
4	31	Sverige	Sweden	376	1.4% 73.5%
5					
6	32	Centre-Est	France	373	1.4% 74.4%
7					
8	33	Wisconsin	United States	320	1.2% 75.1%
9					
10	34	Saitama	Japan	317	1.2% 75.5%
11					
12	35	Ohio	United States	308	1.1% 76.2%
13					
14	36	Niedersachsen	Germany	283	1.0% 76.8%
15					
16	37	Missouri	United States	280	1.0% 77.4%
17					
18	38	Chiba	Japan	276	1.0% 77.7%
19					
20	39	Michigan	United States	265	1.0% 78.3%
21					
22	40	Iowa	United States	261	1.0% 79.0%
23					
24	41	Berlin	Germany	258	1.0% 79.6%
25					
26	42	Colorado	United States	251	0.9% 80.2%
27					
28	43	Shizuoka	Japan	245	0.9% 80.6%
29					
30	44	Scotland	United Kingdom	237	0.9% 81.1%
31					
32	45	Delaware	United States	232	0.9% 81.4%
33					
34	46	Nord-Ovest	Italy	220	0.8% 82.1%
35					
36	47	Minnesota	United States	213	0.8% 82.6%
37					
38	48	Est	France	213	0.8% 82.9%
39					
40	49	Virginia	United States	211	0.8% 83.1%
41					
42	50	Rheinland-Pfalz	Germany	210	0.8% 83.4%

¹ Cumulative % excludes double counts due to co-patenting in multiple regions

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Table 2 Descriptive statistics

	Obs	Mean	Std. Dev.	Biotech patents	Biotech portfolio	R&D	Clusters	Other regions	Countries
Weighted number of Biotech patents	422	21.1	36.2	1					
Size of Biotech Patent Portfolio (5year, weighted)	422	106.1	131.1	0.5673	1				
R&D Expenditures (in thousands USD)	422	452.4	760.3	0.0681	0.2164	1			
Number of clusters	422	1.8	1.6	0.3082	0.5024	0.4427	1		
Number of other regions	422	2.4	2.7	0.1471	0.3253	0.5401	0.4453	1	
Number of countries	422	2.0	1.5	0.0930	0.2435	0.5579	0.4348	0.7685	1

Table 3 Fixed Effect Negative Binomial Regressions:

Weighted Number of Biotech Patents Acting as Dependent Variable

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Biotech portfolio	0.0014***	0.0011***	0.0012***	0.0011***	0.0012***	0.0013***
	(0.0003)	(0.0004)	(0.0004)	(0.0004)	(0.0004)	(0.0003)
R&D expenditures	0.0005***	0.0004***	0.0005***	0.0004***	0.0005***	0.0005***
	(0.0001)	(0.0001)	(0.0001)	(0.0001)	(0.0001)	(0.0001)
Clusters		0.0948**		0.0864**	0.2945***	
		(0.0402)		(0.0440)	(0.0924)	
Clusters ²					-0.0339**	
					(0.0132)	
Other regions			0.0325	0.0123	-0.0634	
			(0.0231)	(0.0256)	(0.0540)	
Other regions ²					0.0066	
					(0.0042)	
Countries						-0.0095
						(0.0974)
Countries ²						0.0075
						(0.0113)
Time dummies	yes	yes	yes	yes	yes	yes
Constant	0.2229	0.0954	0.1566	0.0802	0.0052	0.207
	(0.1541)	(0.1641)	(0.1620)	(0.1675)	(0.1879)	(0.2100)
Number Obs	422	422	422	422	422	422
Wald Chi ²	122.00***	131.01***	127.15***	132.13***	141.03***	127.85***

Standard errors are reported between parentheses; *, **, *** indicate significance at the 10% 5% and 1% levels