

The Effect of Foreign Owned Firms and Licensed Manufacturing Agreements on Innovation: Case of Pharmaceutical Firms in Developing Countries

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Abstract : Given the fact that the pharmaceutical industry is a commonly studied sector in the context of innovation, the majority of innovation research is devoted to the developed markets known by high research and development (R&D) assets and intensive innovation. In contrast, in developing countries where R&D assets are very low, there is relatively little research to mention in the area of pharmaceutical sector innovation, characterized mainly by two principal elements which are the presence of foreign-owned firms and licensed manufacturing agreements between local firms and multinationals. With the scarcity of research in this field, this paper attempts to study the effect of these two elements on the firms' innovation tendencies. Other traditional factors that influence innovation, which are the age and the size of the firm, the R&D activities and the market structure, revealed in the literature review, will be included in the study in order to try to make this work more exhaustive. The study starts by examining innovation tendency in pharmaceutical firms located in developing countries before analyzing the effect of foreign-owned firms and licensed manufacturing agreements between local firms and multinationals on technological, organizational and marketing innovation. Based on the related work and on the theoretical framework developed, there is a probability that foreign-owned firms and licensed manufacturing agreements between local firms and multinationals have a negative influence on technological innovation. The opposite effect is possible in the case of organizational and marketing innovation.

Keywords : developing countries, foreign owned firms, innovation, licensed manufacturing agreements, pharmaceutical industry

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