Should I Stay or Should I Go? Spatial Relocation Strate-Gies and their Impact on Firm Innovativeness

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Abstract

We analyse the short- to mid-run effects of spatial relocation strategies on firm innovativeness and productivity growth. We are focusing on small and medium sized enterprises which are playing a crucial role in several industrialized countries and particularly in Germany. Using conditional Difference-in-Difference estimation with multiple treatments, we find for a sample of German firms in 1999-2013 that offshoring has a statistically significant negative impact on the firms’ innovation activity and productivity growth vis-à-vis non-relocating comparison firms. Medium-sized enterprises are facing the severest problems after the relocation decision while small and larger firms perform better. In contrast, we find a positive link between domestic relocation activities and the firms’ propensity to introduce a product innovation particularly for larger firms. Firms should thus carefully account for potentially distorting performance effects when deciding about the spatial scale of relocation strategies in the short to mid run.

Key Words: Relocation, offshoring, innovation, difference-in-difference, multiple treatments
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