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Patent Management in Entrepreneurial SMEs



HOLGERSSON, Marcus: Patent Management In Entrepreneurial SMEs: A Literature Review And An Empirical Study On Innovation Appropriation, Patent Propensity, And Motives, *R&D Management* 43, 1, 2013, pp. 21-36

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SUMMARY

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Abstract

In the present paper, the author examines the way small and medium-sized enterprises (SMEs), which base their businesses on new or improved technologies (entrepreneurial SMEs), embed patenting into the management of their investments in research and development (R&D). A critical review of previous literature is followed by an empirical study based on three different groups of Swedish entrepreneurial SMEs (top growth SMEs, high-tech SMEs and SMEs located in the so-called "Gnosjö region"). The author suggests that entrepreneurial SMEs perceive patenting as of little or no importance for appropriating returns from R&D. Entrepreneurial SMEs consider patenting to have major importance for customer and capital marketing, instead.

Summary

Small and medium-sized enterprises (SMEs), which base their businesses on new or improved technologies and/or means for commercialization and growth (entrepreneurial SMEs), rely heavily on appropriation of value from their investments in research and development (R&D).

Patenting is one, but not the only means for value appropriation. Companies can, for example, also revert to secrecy, sales or service efforts, lead time creation and/or low-cost production. Past studies indicated great variations over industries in the effectiveness of different means of value appropriation. Previous studies have further shown, that the propensity of companies to use patents (patent propensity) also varies significantly over industries and company sizes. In general, large companies were found to have higher patent propensities than SMEs (since SMEs often prefer secrecy over patenting).

The motives for companies to engage in patenting can be manifold. Previous empirical research has shown that, besides preventing imitation of the patented technology by others, patenting is also used by companies to block competitors' R&D and patenting efforts, improve the corporate image both towards investors and customers, motivate employees, avoid litigation by gaining retaliation power as well as to strengthen the company's position within standardization (with the latter gaining increasing importance particularly within the telecommunications industry). Again, differences across company sizes were noticed. SMEs appeared to attach higher value to image and reputation motives than large companies.

According to the author, past studies fail to show how entrepreneurial SMEs use patenting or to explain how, respectively why they act different from large companies in this respect. This is the case, because

previous studies have been dominated by quantitative methods and usually focused only on one topic (that is either on value appropriation strategies or patent propensity or motives for patenting).

In order to fill this gap, the author empirically examined three different groups of Swedish entrepreneurial SMEs, namely (1) top growth SMEs with fast organical growth, (2) high-tech SMEs focusing on new technologies, and (3) SMEs located in the so-called "Gnosjö region", which is characterized by a special entrepreneurial spirit. In contrast to past studies, the author relied on a qualitative method.

The results of the empirical study suggest that all three groups of entrepreneurial SMEs perceive patenting as of little or no importance for appropriating returns from R&D. Entrepreneurial SMEs have a low level of trust in the ability of patents to deter imitation of their innovations, mainly because they dispose of limited resources for monitoring and enforcing patents (especially against large firms).

On the other hand, all groups of entrepreneurial SMEs examined consider patenting to have major importance for customer and capital marketing. Indeed, attracting customers was seen as one of the main motives for engaging in patenting. The examined SMEs particularly valued so called "patent markings", that is the use of the terms "patented" or "patent pending" in the marketing of a product and/or on the product itself.

Furthermore, patents are commonly used by all groups of entrepreneurial SMEs as a means to attract venture capital (VC), sometimes even being prerequisites for investments. The study indicated that high-tech entrepreneurial SMEs rely the most on patents to attract VC (and also highly value patents in the context of mergers and acquisitions).

In conclusion, the author argues that large companies with better access to complementary assets mainly patent to protect their technological resources, while entrepreneurial SMEs, on the other hand, mainly patent to gain access to necessary complementary assets or resources, including financial capital.