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To Patent or not to Patent: That is the Question.

Intellectual Property Protection in Family Firms. Forthcoming in Entrepreneurship, Theory and Practice, 2018

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Summary

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SUMMARY			
Document Title	CHIRICO, Francisco/ CRIACO, Giuseppe/ Baù, Massimo/ NALDI, Lucia/ GOMEZ-MEJIA, Luis R./ KOTLAR, Josip: To Patent or not to Patent: That is the Question. Intellectual Property Protection in Family Firms. Forthcoming in Entrepreneurship, Theory and Practice, 2018		
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Abstract

In the present paper, the authors examine family firms' propensity to protect their intellectual property through patents. They argue that this kind of firms desire to prevent losses of current socioemotional wealth impedes their propensity to patent until a threshold level of family ownership is secured and a greater focus on prospective financial gains achievable through patents becomes a possibility.

Summary

Family firms' innovation strategies are complicated by family owners' focus on nonfinancial goals, in addition to economic returns, as family owners tend to value both financial and socioemotional outcomes in their strategic decisions. Following this statement, to fully appreciate the strategic implications of patenting behavior in family firms, it is crucial to examine the potential goals and losses of patenting, compared to both financial and socioemotional wealth.

Among the main risks for family firms when looking at patenting, are: the level of investment in research and development, which might require the firm to de-emphasize its historic foundations and divert resources away from their traditional business lines. The disclosure of information on the research conducted and new knowledge created, which could lead to losses of critical tacit knowledge; a critical condition for successful generational succession in family firms. The legal challenges around patenting could negatively affect the family's image. Also, patenting activities require greater involvement of specialized human capital, managerial talent and expertise commonly not available within the family, thereby reducing the owners' ability to control and command.

On the other hand, munificence is the abundance or scarcity of critical resources within an environment, often associated with the growth opportunities in an industry. Yet, although prior studies have indicated environmental munificence is an important contextual variable explaining a firm's strategic choices, patenting strategies under this variable are poorly understood. In this paper, the authors argue that the benefit and cost functions of patenting are likely to vary for different levels of family ownership.

The main results of the study conducted are the following:

In family firms from low to medium level of environmental munificence, the perceived socioemotional wealth costs to patenting tend to increase. Thus, patenting is likely to be perceived from a loss/cost perspective rather than a gain/benefit one.

In family firms from medium to high level of environmental munificence, as socioemotional wealth is secured, patenting is perceived as provider of sustainable sources of advantage, creating potential financial growth options and ensuring continuity of the family dynasty.

From a managerial perspective, evidence suggests that family firms' propensity to patent might be biased by their emphasis on socioemotional wealth considerations. Yet, the study encourages family owners to acquire or preserve a stronger controlling position in their respective firms to deploy more effective patenting strategies, especially those with a low level of environmental munificence.