Propensity to Patent by Family Firms

– *Mariasole Bannò*

An important aspect in managing innovation is to protect the intellectual property created by the firm. However, firms vary in their ability to protect themselves from imitation and in appropriating returns from their innovations. This study examines the family firms' attitude toward protection of their innovation outputs. Viewing from the socioemotional wealth (SEW) perspective the authors probe whether family firms make effective use of patents as a tool for intellectual property rights protection. The study is based on a sample of 229 Italian firms that make R&D investments. This summary presents the context, findings and implications of the study.

Family Firms and Patenting

Firms invest in technological innovations to gain competitive advantage and maximize revenues from their R&D efforts. Continuity and long-term survival are crucial objectives for family firms as they have a long-term, inter-generational orientation. In order to ensure that, family firms aim to appropriate sufficient returns from their innovations. For this, they need to protect their innovations through means like patents or industrial secrecy, launching complementary products etc.

Though patenting is the most utilized form of innovation protection, firms exhibit heterogeneous attitude towards patenting. In some instances, there are regulatory or technical reasons, like, some inventions cannot be patented, but in several cases the decision of not patenting the technological innovation is driven by other considerations.

Based on the review of extant literature, the authors posit that in case of family firms the decision to patent (or not) their innovation is driven by their SEW preservation considerations. However, there are varying perspectives from which family firm managements may view SEW preservation. Twenty years of patent protection offers sufficient time for family firms to affirm their family name in the market. It contributes to long-term wealth generation, and allows transfer of benefit through hereditary succession. Thus, patenting helps in preserving SEW and therefore, family firms must go for it. However, the alternate view is that filing, maintaining and protecting patents requires resources that often, family firms may not have. Besides, patenting requires sharing of technical knowledge with outsiders, which goes against the tradition of conservatism followed by family managements. Thus family firms may avoid patenting to preserve SEW. The study probes how SEW considerations affect family firm's patenting decisions.

The Study and its Key Findings

The authors probed patent data of 229 Italian firms, (from 2008 to 2012) listed in a public database. They assessed the firm's propensity to patent as a function of firm's family ownership, governance structure (i.e., percentage of directors on board who were family members), and presence of a family successor, while controlling for other firm differences.

Their key findings were the following:

1. Governance Structure Matters: The involvement of family members on the board of directors was found to have a **negative** and **significant** effect on the firm's propensity to patent. The authors argue that this was because the SEW preservation objectives dominated the intellectual property rights protection choices of the family firms. As patenting requires firms to share their technical knowledge with outsiders, it goes against their traditional attitude of conservatism. Due to this they opt for other alternatives to protect their innovations.

2. Presence of Young Successor Alters Choices: The presence of young successors was found to have a **positive** and **significant** effect on the family firm's propensity to patent. The authors attribute this to the open mindset of new generation members that fosters discontinuity of past strategies, overcomes conservatism and reluctance in making information disclosure.

3. Ownership per se, does not influence: Family ownership per se, was **not** found to have a significant effect on the firm's propensity to patent.

Thus, in making innovation protection decisions, family firms were found to make strategic choices that were distinct from their non-family peers, only because of their peculiar governance structure and SEW preservation considerations. Patenting decisions were found to be influenced when there was considerable involvement of family members in the firm's governance mechanism and when there was a young successor involved in business.

Practical Implications

The study has implications for family firm managements, policy makers and practitioners. Family firm managers need to be aware that traditional attitude of conservatism and reluctance in disclosing information may hinder their decision to protect innovations through patenting. This may adversely affect their firm, as patents are a critical source of global competitive advantage. Involvement of a young family successor may help family firms improve their propensity to patent. Inclusion of multiple generations enriches the family firm's knowledge, skills and capabilities, and leads to better management of innovation.

The implication for policy makers is to design the patent system optimally, considering variances in the governance structures of different organisations types. The practitioners need to understand different patterns of innovation protection adopted by family firms and assess diversified innovation-protection training needs that suit their organisation and governance contexts.

Family firms need to realize that it is in their interest to opt for patents to protect their intellectual property, especially in the case of technological innovations.

Source: *Journal of Family Business Strategy, (2016), Vol. 7 No. 4, pp. 238-248.*