Protection of trade secrets and capital structure decisions

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Protection of trade secrets and capital structure decisions

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Abstract:

Firms strategically choose more conservative capital structures when they face greater competitive threats stemming from the potential loss of their trade secrets to rivals. Following the recognition of the Inevitable Disclosure Doctrine by US state courts, which exogenously increases the protection of a firm’s trade secrets by reducing the mobility of its workers who know its secrets to rivals, the firm increases its leverage relative to unaffected rivals. The effect is stronger for firms with a greater risk of losing key employees to rivals, for those facing financially stronger rivals, and for those in industries where competition is more intense.

\textit{JEL classifications:} G31, G32, J60, O34

\textit{Keywords:} capital structure, trade secrets, intellectual property, competitive threats.

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