



Trade secrets: Managerial guidance for competitive advantage



William F. Crittenden^{a,*}, Victoria L. Crittenden^b, Allison Pierpont^{c,1}

^a D'Amore-McKim School of Business, Northeastern University, 305 Hayden Hall, Boston, MA, 02115, U.S.A.

^b Babson College, Malloy Hall – Suite 211, Babson Park, MA 02457, U.S.A.

^c D'Amore-McKim School of Business, Northeastern University, Boston, MA 02115, U.S.A.

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Abstract While scholars have explored the construct and ramifications of intellectual property, most research efforts have focused on patents as a means of protecting a firm's intellectual capital. Yet Hemphill (2004) suggested that trade secrets can affect the difference between economic success and failure of the firm. When trade secrets are discussed, there is a tendency to focus on the more famous secrets that have received considerable hype in the popular press (e.g., Coca-Cola, KFC, McDonald's). To address this shortage of trade secrets storytelling, the research reported here engaged in a historiographic approach to capturing and compiling an in-depth look at various company trade secrets and elaborating on the strategic intent behind many of the secrecy efforts. Product and process secrets were seen to be used to develop positive brand perceptions, establish consistent brand purchasing, aid in distinguishing products and services from competitive offerings, and build market share. We suggest that managers should regularly assess which assets are suitable for patent, product design, trademark, copyright, or trade secret status and work diligently to protect the firm's intangible assets.

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“The whole secret lies in confusing the enemy, so that he cannot fathom our real intent.”

—Sun Tzu

“The secret of my influence has always been that it remained secret.”

—Salvador Dalí

“The great secret of the art of war [is] how to develop offensive action from a defensive base.”

—Ulysses S. Grant

1. Strategic secrets

Aggressive conditions have long resulted in strategic secrets. From Sun Tzu's military strategies to Ulysses S. Grant's secrets for battlefield supremacy to Salvador Dalí's surrealistic imagery, the art and science of strategic success has been the yin and yang of strategic prowess. The importance and

* Corresponding author

E-mail addresses: w.crittenden@neu.edu (W.F. Crittenden), vcrittenden@babson.edu (V.L. Crittenden), pierpont.a@husky.neu.edu (A. Pierpont)

¹ Student

power of secrecy is evidenced in [Sawyer's \(1997\)](#) translation of effective strategy and leadership from a Dao-conceptualized viewpoint. With secrecy as weaponry, leaders have long relied on secrets for protection, and this reliance on secrecy extends to the intellectual property of the firm. Rather than provide competitors with potentially useful information via a patent application, secrecy is often viewed as the more appropriate course of protection ([Anton & Yao, 2004](#)).

Most organizations keep and protect secrets, spanning all functional areas of business. For example, the research and development and marketing functions are concerned with product formulations, new product specifications, product launch dates, and sales/revenue data. Production and information systems managers guard operational processes, while the human resources division tries to shield payroll information from both internal and external eyes. From a strategic perspective, this secrecy can serve as a significant resource and a building block for competitive advantage. The significance of such a resource can be so important that competitors may attempt appropriation of secrets through observation, trickery, industrial intelligence gathering, and theft—including the recruitment of other firms' knowledgeable employees.

Against the backdrop of competitive advantage, little research exists seeking to understand trade secrets as a stand-alone topic of inquiry. In one of the few such studies, [Hemphill \(2004\)](#) suggested that trade secrets can affect the difference between economic success and failure of the firm. Yet, if secrets can have such a major economic impact, one has to wonder why the secrets constantly retold are those of KFC, Coca-Cola, WD-40, and McDonald's. Is not the volume of secrecy efforts comprised of organizations that operate on a daily basis in our society? Who are these companies and what are their secrets? Importantly, what is the strategic intent of holding such intangible assets?

In this research, we engaged a historiographic approach to capture and compile an in-depth database of various company trade secrets. We elaborate here on the strategic intent behind many secrecy efforts utilized to protect the intellectual property that comprises a firm's strategic assets.

2. The centrality of trade secrets

As noted by the independent investment research firm Morningstar and legendary investor Warren Buffet, companies need to seek out and develop competitive advantages that make it difficult for rivals to take market share. Companies with durable

advantages suitable to protecting market share and maintaining margins are described as having wide economic moats. If firms make it easy for others to steal ideas, they can ultimately end up washing away their competitive advantage and their own path to success. All the same, the business press seems to report daily yet another firm bringing suit against its rival for poaching employees with proprietary expertise or against former employees for sharing confidential information.

There are no exclusive rights to secrets, however, and competitors can attempt to break any secret's code via such means as accidental disclosure, independent discovery, or intentional leakage. Intentional leakage of trade secret information, referred to as misappropriation, does have legal recourse. But, particularly in today's world of fast-paced communications, there is nothing that can make the secret a secret again. Additionally, competitors may leak false secrets in an attempt to sabotage brand image or reduce the efficacy of trade secret marketing tactics.

According to [Hollander \(2001\)](#), a trade secret represents information that is "sufficiently valuable and secret to afford economic advantage over others." Tort law provides the following definition of a trade secret ([Basile, 2007](#)):

A trade secret may consist of any formula, pattern, device, or compilation of information which is used in one's business and which gives [that business] an opportunity to obtain an advantage over competitors who do not know or use it.

Unlike patents, there is no time limit on how long a trade secret can be protected, and secrets are generally protected under the Uniform Trade Secrets Act and/or the Economic Espionage Act of 1996 ([Justia, 2014](#)). As evidenced by companies such as KFC, Coca-Cola, WD-40, and McDonald's, it may not necessarily be the secret that really protects or enables companies; rather, it is the sense of nostalgia that can drive the business ([Choi, 2013](#)). As noted by [Radford \(2009\)](#), a minimal laboratory analysis could discern what chemicals and ingredients appear in what quantities of a food product. Others suggest that secrets create a buzz factor in the marketplace and that the associated hype and build-up are good for initial sales ([Lewis, 2007](#)). [Hannah, Parent, Pitt, and Berthon \(2014\)](#) created a typology of secrets, where *appealing* secrets (e.g., KFC, Coca-Cola) have both strategic and marketing value, *mythical* secrets (e.g., McDonald's secret sauce) have marketing value but not strategic value, *plain* secrets (e.g., Google's infrastructure) have strategic value but not marketing value, and *weak*

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