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Why do SMEs file trademarks? Insights from firms in innovative industries

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ABSTRACT

Trademark filings have increased markedly over time. Although prior research has investigated the outcomes of trademark registration, including its effects on firm market valuation and productivity, little is known about why firms file trademarks. However, to interpret the increase in trademark filings and its economic effects, it is important to know and understand why firms file trademarks. Because trademarks are particularly important to small and medium-sized enterprises (SMEs), this study analyzes trademarking motives using a survey of 600 SMEs in innovative industries. An exploratory factor analysis yields three distinct motives: protection, marketing, and exchange. A cluster analysis reveals four distinct clusters of firms with respect to the three trademarking motives. A comparison of these clusters reveals significant differences in several industry- and firm-level characteristics, including participation in service industries and relationships with external parties. Implications for research on SMEs, trademarks, and intellectual property management are discussed.

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1. Introduction

Trademark applications have increased markedly in recent years. Statistics on trademark applications published by the World Intellectual Property Organization (WIPO) indicate that trademarks are the most frequently filed form of intellectual property right (IPR) and that applications have nearly doubled over the last 10 years (WIPO, 2014). Although the increasing importance of trademarks has spawned research investigating the effects of trademarks on the market valuation and productivity of firms (e.g., Krasnikov et al., 2009; Sandner and Block, 2011; Greenhalgh and Rogers, 2012), little is known about *why* firms file trademarks. However, to interpret the increase in trademark filings and its economic effects, it is crucial to know and understand why firms file trademarks. Previous research identifies various motives for trademarking, including the protection of marketing assets, brand building, and signaling quality (e.g., Ramello and Silva, 2006; Srinivasan et al., 2008; Sandner and Block, 2011). Nevertheless, an empirical investigation of trademarking motives remains lacking. We address this gap by analyzing the motives of firms to register trademarks using data from 600 small and medium-sized enterprises (SMEs) in innovative industries.

SMEs differ from large firms with regard to trademarking. Previous research observes that SMEs are relatively more active in trademarking than large firms are (Rogers et al., 2007; Greenhalgh and Rogers, 2008). This difference can be explained by the specific context of SMEs. In particular, SMEs experience liabilities stemming from their small size, which hinders the pursuit of cost leadership strategies based on economies of scale. Accordingly, SMEs often focus on product differentiation or niche strategies (e.g., McDougall and Robinson, 1990; Carter et al., 1994; Lee et al., 1999). Trademarks can play a pivotal role in product differentiation by establishing and protecting brands and by distinguishing an SME's products from those of its competitors, which often follow SMEs into these niches (Lee et al., 1999). Furthermore, trademarks may especially suit resource-scarce firms, such as SMEs in innovative industries. Trademark registration is relatively inexpensive and non-complex and, thus, may serve an important appropriation function for SMEs interested in using IPRs. Additionally, one could expect that SMEs register trademarks for different reasons

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than large firms do. Resource scarcity often forces SMEs to engage in exchange relationships with external partners to leverage their assets, enter new markets, or obtain additional financial resources. In such exchange relationships, trademarks can strengthen the negotiating position of firms and serve as quality signals (e.g., Srinivasan et al., 2008; Block et al., 2014a).

Our empirical analysis comprises three steps. First, we theoretically develop and empirically validate the following set of three overarching trademarking motives: protection, marketing, and exchange. Second, these trademarking motives are employed as active cluster variables in a cluster analysis to explore empirical variation in the configuration of trademarking SMEs. The cluster analysis identifies four distinct clusters of SMEs based on trademarking motives; we label these four clusters as follows: trademark skeptics, marketing-focused trademarking SMEs, marketing- plus protection-focused trademarking SMEs, and trademark advocates. Third, we compare the industry and firm characteristics of firms in these four clusters to gain insights into the clusters' distinctions and characteristics.

Our findings contribute to innovation and marketing research in three respects. First, we enrich research on SMEs' motives to file for IP protection. Previous empirical studies of why firms, and particularly SMEs, use IPRs focus mainly on patents (e.g., Cohen et al., 2000; Blind et al., 2006; De Rassenfosse, 2012). However, trademarks may also play an important role in the appropriation of innovation rents by SMEs (e.g., Helmers and Rogers, 2010; Flikkema et al., 2014). For example, the literature suggests that trademarks are complementary to patents and that the two are used in conjunction with each other to offer more complete protection of IP assets (Blind et al., 2006; Thomä and Bizer, 2013). Previous research in this area relies mainly on theoretical considerations and anecdotal evidence and does not provide a systematic empirical analysis of why firms file trademarks (e.g., Mendonça et al., 2004; Srinivasan et al., 2008; see Flikkema et al., 2014, for a notable exception). Against this backdrop, the theoretically backed and empirically validated set of trademarking motives developed in this study provides valuable insights into the motives of SMEs to file for trademarks.

Our second contribution is the empirical identification of four distinct clusters of SMEs with regard to trademarking motives. This finding is in line with prior research that underscores the uniqueness and diversity of SME IPR use (e.g., De Jong and Marsili, 2006; Thomä, 2009; De Rassenfosse, 2012; Thomä and Bizer, 2013). Our results suggest that with regard to trademarking, SMEs should neither be treated as scaled-down versions of large firms nor viewed as a single entity. The four clusters of SMEs follow a hierarchical structure. Trademark skeptics engage in trademarking without a specific motive. Marketing-focused trademarking SMEs emphasize marketing motives, whereas marketing-plus protection-focused trademarking SMEs combine marketing and protection motives. Trademark advocates are positive about all three trademarking motives (i.e., marketing, protection, and exchange).

Third, comparing the four identified clusters based on passive cluster variables contributes to previous trademark research, which focuses primarily on trademark (application) counts and their effects on market value, productivity, and firm survival (e.g., Srinivasan et al., 2008; Sandner and Block, 2011). Little is known about how industry and firm characteristics relate to trademarking motives. Although this study is not a causal investigation of contingency factors relating to trademarking motives, our analysis provides exploratory evidence of the factors by which trademarking SMEs differ. For instance, our results indicate that SMEs in the trademark skeptics cluster interact less with external parties compared with firms in the other three clusters, which suggests that their skepticism toward trademarks may stem from being somewhat inward oriented. In contrast, we observe that SMEs seeking external innovation partnerships are overrepresented among trademark advocates, which take a holistic view of trademarking motives.

We structure the remainder of the study as follows: Section 2 provides a literature review of SMEs' potential motives for filing trademarks and presents the conceptual framework of this study. Section 3 describes the data. Section 4 provides the empirical results of the factor and cluster analyses and compares the clusters with each other through descriptive analysis. Section 5 discusses the implications of the study for theory and practice, details the limitations of the study, and suggests avenues for future research.

2. Literature review and conceptual framework

2.1. Existing research on motives for filing IPRs (especially patents)

A number of previous empirical studies have examined motives for filing IPRs. Most of this research concerns patents and is based on samples of large firms. One early study conducted by Cohen et al. (2000) analyzes the motives of large US manufacturing firms to file patents. The authors observe that although most patents are filed to prevent imitation, they are also filed to block competitors from patenting similar inventions. Other less important motives include preventing lawsuits, improving negotiations, and enhancing firm reputation. Blind et al. (2006) explore patenting motives in a sample of German firms of various sizes. Employing factor analysis, they identify the following five motives: protection, blocking, reputation, exchange, and incentive. Blind et al. (2006) observe that reputation motives (e.g., company image) are relatively more important for small firms than for large firms. However, protection and blocking motives remain the most important motives for patent applications, irrespective of firm size. This finding is consistent with the work of Keupp et al. (2009), which focuses on Swiss SMEs and observes that protection motives are the most important reasons for patenting, followed by piracy prevention. Financial motives (which Blind et al. (2006) refer to as exchange motives), such as attracting venture capital, are less important. In contrast, in a study that compares the patenting motives of SMEs and large firms, De Rassenfosse (2012) demonstrates that financial motives – specifically, attracting investors or licensees – are more important for SMEs because investors and licensees help SMEs to overcome financing constraints. Veer and Jell (2012) obtain similar results and highlight the importance of patents to SMEs that seek to generate licensing opportunities and to attract investors. Similarly, Holgersson (2013) studies a sample of Swedish SMEs and highlights the major role of patents in facilitating exchanges and improving a company's reputation. The author argues that patents improve a firm's reputation among customers and attract venture capital.

2.2. Existing research on the use, effects, and motives of trademarking

The number of studies that analyze the use and effects of trademarks is increasing. One of the first studies of trademarking, Mendonça et al. (2004), discusses the use of trademarks as a proxy for firms' innovation activities. Drawing on this study, subsequent research has demonstrated the effects of trademarking on firm value, productivity, and survival.

Sandner and Block (2011) analyze the effects of trademarks on firms' market values in a sample of 1216 large firms and observe that trademarks have a positive effect on firm market value. Similar results are reported by Fosfuri and Giarratana (2009), Krasnikov

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