Study shows how companies can help safeguard intellectual property when expanding into risky countries

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In 2015, Pfizer pharmaceutical company invested $14 million in Chile to launch the Center of Excellence in Precision Medicine, focusing on developing new genome-based diagnostic technologies for cancer.

This is just one example of a firm's geographic entry into a country that does not have strong intellectual property rights protection. The country may provide important necessary resources, but the investing firm may suffer intellectual property leakage and imitation by competitors.

New research from the University of Notre Dame, however, shows there are ways companies like Pfizer can safeguard their intellectual property in such environments. "Fearlessly Swimming Upstream to Risky Waters: The Role of Geographic Entry in Innovation" is forthcoming in the *Journal of Management Studies* from Tim Hubbard, assistant professor of management in the University of Notre Dame's Mendoza College of Business.

Hubbard and his team examined the innovative activities of 142 global pharmaceutical companies operating in 118 countries across 18 geographic regions. More specifically, the team analyzed the geographic entry patterns of the companies' upstream research and development activities and their downstream commercialization activities—such as manufacturing, marketing and support—for the innovative products.

The team found that firms operating regionally through downstream commercialization activities can offer complementary assets to the upstream R&D activities that help protect the firms' intellectual property. That is, as an example, manufacturing and selling pharmaceuticals within a region can help protect firms that choose to locate their research and development activities in countries in the same region. Moreover, the regional downstream commercialization activities can substitute for the weak intellectual property protection of a country within that region.

"Previous studies have shown that firms need both upstream and downstream activities to profit from their innovations, but the question remains about 'where' this can happen," Hubbard says. "We show that the regional level can be an answer. For example, all upstream and downstream activities don't have to take place in one country; they can take place across the region."

Moreover, Hubbard's team discovered that if a firm takes a regional approach and spreads out its activities across a region, it makes it harder for competitors to imitate the upstream intellectual property for two reasons.

First, competitors will not fully grasp everything the firm is doing. Hubbard explains, "If all activities were located within a single country, it would be easier for a competitor to assess what the firm has done. If, however, those activities are spread across several countries within a region, they can still take advantage of having co-location, but they don't have to worry about competitors seeing the whole picture."

Second, even if the competitor copies the upstream intellectual property, it takes too long to capture the value from it, as they would have to develop all of the downstream commercialization activities tailored to the upstream activities. Thus, these two reasons create barriers to imitation.

Prior to this important finding, there were few guidelines to deal with the dilemma where a firm wanted to enter countries with important resources not available elsewhere in the world, but the country lacked strong intellectual property rights protection. These important resources could substantially enhance the firm's competitive advantage, but the weak protection could put the firm's intellectual property at risk.

"For example, countries with rainforests allow for unique opportunities to research tropical diseases and develop new drugs," Hubbard says. "But the question remains: should firms locate research and development activities in countries with poor intellectual property rights? Our research indicates that having downstream activities that can help protect intellectual property, paving the way for them to invest in these countries."

The results also shed light into how firms can help manage their research and development activities in diverse regions such as Southeast Asia. For example, if firms already manufacture and sell their products in Southeast Asia, they may be more confident in locating their research and development activities in countries within the region—such as Vietnam or China —because they will have another mechanism to help them protect their intellectual property.

More information: Curba Morris Lampert et al. FEARLESSLY SWIMMING UPSTREAM TO RISKY WATERS: THE ROLE OF GEOGRAPHIC ENTRY IN INNOVATION, *Journal of Management Studies* (2018). DOI: 10.1111/joms.12347

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