Inorganic Growth in Innovative Firms: Evidence from Patent Acquisitions
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Introduction
Startup firms are better suited to exploration than exploitation. Nonetheless, approximately 10% of VC-backed companies acquire external patents while still private.

This paper focuses on understanding what motivates these firms to buy external patents.

Hypotheses & Results

H1: Low productivity hypothesis: Patent acquisition is a response to weak internal innovation capabilities or low internal productivity.
• Firms buying patents are unlikely to be low-quality firms
• More productive firms, not less productive firms, tend to buy external patents

H2: Litigation hypothesis: Patent acquisition represents a response to the threats stemming from firms' intellectual property (IP) environment.
• Firms sued for patent infringement are significantly more likely to buy patents
• Firms exposed to a high threat of litigation are significantly more likely to buy patents

Identification

Alice Corp. vs. CLS Bank:
• Decided on 6/19/2014
• Raised the patent eligibility standards for business method patents → Led to a sudden reduction in the threat of litigation for firms whose technologies rely on business method patents

Results:
• The probability of patent acquisition drops substantially for the treatment group

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<td>Pre</td>
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<td>P(Acquiring patents)</td>
<td>0.05***</td>
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Key findings:
• A nontrivial fraction of young entrepreneurial firms buy external patents
• This behavior is closely related to the threat of litigation (rather than low internal productivity, product market competition, or VCs' liquidation pressure)

Contribution & Implications
• IP rights = important determinant of young firms' decisions to rely on inorganic growth
• IP rights can shape industry concentration by affecting entrepreneurial firms' exit channels
• Incumbent firms with market power have incentives to maintain their market power through patent rights
• The increasing industry concentration in recent years suggests that such opportunities are also increasing