

Discussion on "Control Rights over Intellectual Property: Corporate Venturing and Bankruptcy Regimes" by Bhattacharya and Guriev

Mikko Leppämäki

Helsinki School of Economics

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- Control rights affect at the bargaining stage a decision over the licensing mode and its terms.
- Control rights in the hand of development unit is a kind of counter force against the fact that the innovator holds property rights over the generated knowledge
- Interestingly, allocation of control rights in the hand of development unit may have beneficial incentive effects ex ante (more effort in knowledge generation)

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- Lack of financial flexibility *ex interim* can thus be a useful commitment device

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- More generally the current paper belongs to the literature of incomplete contracting and control rights

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- Two licensing modes: patent vs trade secrets
- Under patenting: RU gets a fee, F^o
- Under trade secret: RU may be tempted to resell his knowledge secretly to other DU and in order to constrain this RU gets fee F^C and a stake of ex post surplus sP^C

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- Under trade secret mode RU's incentive constraint for not behaving opportunistically has to be satisfied by setting ex post stake, s at the level that IC holds.
- **IC compatible mechanism for closed sale:** $s^*(K; L) = ((1 + L - \sqrt{(1 + L)^2 - 8(1 - L)(1/K - 1)})/4 < 1/2$, which is feasible only when $K \geq \hat{K}(L)$, where $\hat{K}(L) = (1 + \frac{(1+L)^2}{8(1-L)})^{-1}$.

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- Interestingly, as RU is financially constrained, $F^C \geq 0$, but this may actually be violated when his IC compatible ex post stake sP^C is high enough as it would call for transfer from RU to DU, i.e. $F^C < 0$, which is not feasible.

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- Interestingly, as RU is financially constrained, $F^C \geq 0$, but this may actually be violated when his IC compatible ex post stake sP^C is high enough as it would call for transfer from RU to DU, i.e. $F^C < 0$, which is not feasible.
- Trade secret mode feasible only if RU has an access for external funding, BUT this is precisely ruled out by DU having control rights (and vetoing outside finance).

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- **Main result:** Corporate venturing (i.e. DU having control rights) will strictly increase RU's effort *ex ante* under certain conditions and total surplus will be maximized

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- What if DU and RU are under same ownership and still RU has property rights over knowledge (inalienability of human capital)?
- Exactly how DU acquires control over RU at *ex ante* stage and exercises control at *ex interim* stage is not really modeled.

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- Product market expansion/market structure *ex post* - consumer's that would value products

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- Technically solid model and analysis is carefully executed.
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- On the whole the paper advances our understanding of the role of control rights in corporate venturing and how they interact with licensing of knowledge.