KNOWLEDGE CREATION AND APPROPRIATION WITHIN INCUMBENT FIRMS AND EMPLOYEE ENTREPRENEURSHIP (INTERACTIVE PAPER)

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Method

We tested our hypotheses using data from the 2005 European Patent Survey (Pat Val). Our estimation sample is made up of 876 observations including 83 employees who transitioned to entrepreneurship and 793 who stayed at the parent firm. We test our hypotheses using the linear probability model (LPM) as well as the conditional logit model. Both models allow for conditioning on the firm characteristics (firm fixed effects).

Results and Implications

We observe that employees are more likely to exploit the knowledge that they acquired while working on an invention by establishing an independent venture, if they perceive that their patented knowledge is valuable. Yet, the firm can efficiently mitigate this propensity by providing patent-specific rewards. Our results support the view that the transition to entrepreneurship is driven by the gap between the perceived value of the acquired knowledge that can be exploited outside of the parent firm and patent-specific compensation. Our findings may thus have important practical implications for firms that want to actively manage entrepreneurial tendencies and design human resource strategies. Further, we find that the effect value of patented knowledge on the entrepreneurial propensity is moderated by the utilization of the patented knowledge by the incumbent firm. We find evidence of a lower increase in the probability of entrepreneurship associated with the patent values if the technology is licensed to third parties. Consistent with this result, we also find that value of acquired knowledge has a lower effect on the likelihood of employee entrepreneurship when the inventor patents in a technological area in which the parent firm is highly active. Since parent firms are more committed and are more likely to utilize innovations in their core technological domain, this result is consistent with our key argument that under-exploited patented knowledge is a viable driver entrepreneurship. Finally, we analyzed how our variables of interest affect employee mobility. We find that the value of acquired knowledge associated with a specific patent is not a significant driver of an inventor’s decision to move to another existing firm. The main driver of employee mobility is the productivity of the inventor while the specific acquired knowledge and its value affects entrepreneurship.

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