

Business strategies to protect innovation: evidence from Latin America

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Firm-level innovation is a central determinant of performance and productivity in developing as well as developed countries. However, innovation is often discouraged by spillovers and externalities that limit the appropriability of the returns from the related investments. This justifies the existence of formal mechanisms to protect the innovators, such as e.g. patents. However, evidence reveals that firms rely more on informal than formal IP rights to protect their inventions, while many firms do not use IP protection at all. To protect innovation informally, firms use a variety of business strategies, including for example first-to-the market, network and production scale. In this paper we assess how and why business strategies to protect innovation differ across firms, with novel firm-level evidence on Latin America. Our results highlight differences in the recourse to different business strategies both across countries and firms. The ensuing policy implications entail a renewed focus on interventions to support business and management capabilities, not only as an objective per se, but also as an indirect form of fostering firm-level investments in innovation.