Belonging to an enterprise group, and being of sufficient size are two essential, complementary catalysts for firms to implement a diversified intangibles policy. Enterprise groups are more involved than other firms in intellectual property rights, with focus on patent registrations and the ownership of brands and trademarks. Firm characteristics have little influence on the decision to engage in marketing, or on the array of marketing tools utilized. The reasons firms engage in marketing, and how they monitor innovation and marketing policies, are also very homogeneous.

At first sight, size appears to play a decisive role in the behavior of firms that have put in place an explicit management arrangement for at least one of the following intangible components of their activity: marketing, innovation, research and development (R&D), or intellectual property rights protection ([1] and box 1). Differences in involvement in intangibles policies are far less affected by the sector to which the firms belong.

Similarly, the organization of firms in enterprise groups, which has become increasingly frequent in recent decades, favors companies’ involvement in the various components of intangibles ([2], [3]). French groups, like foreign groups operating in France, are generally large-sized units; and, in the same way, large enterprises more often belong to a group than small enterprises.

This raises the following question: Beyond the effect of size, does an enterprise-group organizational structure contribute to greater involvement of firms in managing their intangibles? In the same way, independently of whether or not a company belongs to a group, does size continue to be a driver of intangibles (box 2)?

Sources: Sessi estimates based on 2005 Intangibles Survey - Sessi and Insee
Innovation is driven by size, organization in enterprise groups...

After taking into account other structural factors (reasoning “all other things being equal”), size remains an essential element for analyzing the implementation of innovation in enterprises. Measured in this way, the percentage of enterprises having implemented at least one form of innovation (product, process, marketing, and organizational innovation) is two times higher for firms with 1,000 or more employees than for firms with less than ten employees (chart 1).

Similarly, for firms organized in groups, once again reasoning “all other things being equal”, the percentage of foreign groups that have innovated in the past three years in at least one of the areas observed is twice as high as for unaffiliated companies. Through their structure in France, foreign groups appear to be more innovative than French groups; this applies for overall innovation, but the difference is just as great if the comparison is limited to product innovation alone.

Belonging to an enterprise group has a greater impact on product or process innovation, than on marketing or organizational innovation. Foreign groups report that they are more involved in marketing or organizational innovation than French groups.

... and R&D

Innovation and R&D are tightly linked: close to 85% of enterprises active in R&D report implementing innovations in the past three years. Greater development of R&D policies in groups, irrespective of size or sector, therefore comes as no surprise.

The linkage between innovation and R&D is so strong that when either is neutralized, the other continues to dominate over the three other enterprises characteristics examined (i.e., size, sector, and belonging to a group). Accordingly, for a given size and sector, if the «innovation» variable for the firm is also neutralized, the «group» effect on R&D policies disappears.

Groups are more concerned by intellectual property rights; they register more patents...

Innovating enterprises are those that implement intellectual property rights protection policies more often—irrespective of size, sector of activity, or mode of organization. Such protection can include ownership of enterprise or product brands or trademarks; registering patents, designs and patterns; or ownership of copyright or neighboring rights. All other things being equal, innovating enterprises are twice as likely to protect their intangible assets (chart 2). Groups, whether French or foreign, protect their intellectual property more often than the other enterprises.

Patent registration and trademark ownership are much more characteristics of groups, which often set up structures to manage intellectual property rights, thereby facilitating patent filing. Intragroup collaboration and partnerships heighten awareness in groups of the need for protection. By contrast, because registering designs or owning copyright are more accessible to small entities, no significant difference in behavior is observed relating to size or organizational structure in this area.

1-The "Managing Intangible Assets : Means and Methods" survey
Surveying enterprise groups and the distinctive characteristics of foreign groups

The «Managing Intangible Assets: Means and Methods» survey conducted in 2005 aimed to identify firms’ intangibles policies in four areas: marketing, innovation, R&D, and intellectual property rights protection, through an analysis of the policies implemented, the criteria adduced to justify those policies, their perceived effects, and the human and budgetary resources involved. Publication of the initial results was accompanied by a general description of the survey ([1]). This issue of 4-Pages analyzes the impact of organizational factors, and more specifically, the impact of an enterprise-group structure, on intangibles policies. Firms’ mode of organization was taken into account in the survey in the following way.

The approximately 20,000 units surveyed fall into four categories:
- Unaffiliated companies (not members of a group);
- French microgroups, i.e., with under 1,000 employees and comprising no more than four companies. The company at the head of the group responded for the entire microgroup, with the same questionnaire as for unaffiliated companies, based on the assumption that, because of their size, they do not actually fulfill the functions of an enterprise group;
- French groups; these were queried using a specific questionnaire for groups, which differs from the other questionnaire primarily in that it includes questions on the group’s strategy in terms of decision making and autonomy of units located in France, and regarding different policies for intangibles and criteria for locating R&D and allocating R&D budgets (box 3);
- Foreign groups, considered as either:
  - French actors of a foreign group, with a degree of autonomy relative to their parent company; these were surveyed as a «French sub-group», with the same questionnaire as the French groups;
  - or as a simple subsidiary of a foreign group; these were surveyed using a specific group questionnaire adjusted to observe the impact of their activity in terms of innovation, R&D and intellectual property rights specifically in the French market.

Companies organized in enterprise groups were surveyed at the group level, thus reducing the number of entities in the largest size category, and increasing the size of those entities.

The survey covers a population of two million enterprises (unaffiliated companies, 17,200 microgroups, 6,400 French groups, and 4,200 foreign groups). A telephone pre-survey sought to determine the group’s strategy regarding its intangibles policy: either the entire group has a general strategy that is broad enough to be accurately described on the basis of a single respondent unit; or the policy is set and managed at intermediate levels or divisions, in case those levels or divisions were surveyed. Foreign groups present in France generally considered that their French division (sub-group) decided its own intangibles policy; in such a case, the foreign group was questioned only regarding the French division. Accordingly, the essential part of the «foreign group» respondents are actually their French divisions.

All told, the 7,040 respondent units, which included 602 French groups and 229 foreign groups, are divided into three main sectors: manufacturing (including construction), distributive trade, and services (including transportation). Because most responses by foreign groups pertained to a «subgroup in France», foreign groups analyzed are on average far smaller than French groups, and a lower percentage report having employees outside of France or generating a portion of their sales in other countries. French groups are more concentrated in manufacturing, while foreign groups are more concentrated in the distributive trade sector.
Groups protect their innovations at the national, European and global levels. Unaffiliated companies in most cases limit the geographical scope of protection to the national level.

Finally, apart from the effect of the unit’s size, groups have a broader view of their intellectual property rights policy, which they extend to all areas. A higher percentage of groups report a link between intellectual property rights protection and economic activity: the competitive environment and exploiting the invention economically are the main reasons they give for protecting intellectual property.

... and are more likely to sell under a trademark they own

When enterprises have more than one brand, those organized in groups are more likely to differentiate trademarks by geographical zone. Groups frequently keep the brands they purchase via acquisitions in new markets, and thus manage several brands under which they market their products. Unaffiliated companies and microgroups privilege segmentation by market.

The ability to sell under a firm’s own brand is a strong indicator of market power. It indicates the ability to weigh on distribution channels, control brand image, and greater potential to derive value from intellectual property. Groups clearly exercise greater control over these marketing aspects. All other things being equal, groups are twice as numerous to report sales under a brand they own, and twice as numerous to report that their own brands account for all their consolidated sales.

Similar responses for marketing policies, …

Of the intangible components investigated, marketing policy is the most prevalent. The mode of organization has little influence on the decision to engage in marketing, and on the whole, the respondent units use the same portfolio of marketing tools, with the same breakdown: media advertising, direct advertising, sponsoring, web sites, and collective advertising campaigns.

However, the minimum level of advertising spend required to be effective often requires major outlays for unaffiliated companies. Half of unaffiliated companies reported an annual marketing and advertising budget exceeding 5 percent of sales. Other things being equal, unaffiliated companies report larger average budgets as a percentage of sales than French groups or microgroups.

... for criteria and for the monitoring of innovation and marketing policies

Irrespective of their characteristics, enterprises report the same criteria for their policies in the area of innovation: responding to specific customer demand, and targeting a new market.

Similarly, the implementation of indicators to monitor and track the efficiency of innovation and marketing policies is largely unrelated to the characteristics of enterprises.
3 - Decision-making within groups, location strategy, and autonomy

Centralized management decisions

Whether in marketing and advertising, R&D, or the management of intellectual property rights, groups report that their policy is set first on a group wide basis, and then by operational area (chart 3). Far fewer report that policy is set by geographical zone, except for marketing and advertising, an area in which specific features of local markets are taken into consideration. 37% of groups report that marketing policy is set by geographical zone, and of those, 70% report that their units located in France enjoy significant autonomy of action.

R&D actions for a European market

40% of groups report R&D actions in France or abroad. Of those 40%, all the French groups and 92% of the foreign groups have actions in France (box 1, on the method of observing foreign groups). Two-thirds of the groups, irrespective of nationality, report involvement in a partnership or alliance with an outside partner.

Among the French groups, more reported short-term R&D projects (69%) and long-term R&D projects (45%) than a partnership or alliance. Over half reported that R&D is limited to only certain areas of the group’s activity (rather than all the group’s areas of activity).

French groups and foreign groups alike reported that all their R&D actions conducted in France are intended for the European market (rather than the French market or the world market), and concern only certain areas of the group’s activity (rather than all the group’s areas of activity).

Internationalization of R&D

Another form of R&D internationalization involves R&D actions conducted outside of France. 25% of French groups active in R&D reported that in the past three years they carried out at least one R&D action in foreign countries and 20% of French groups reported an R&D partnership or alliance in foreign countries.

Basing R&D units in France to cooperate with production sites

For over half the groups, cooperating with production sites was the leading criterion given for basing R&D and allocating R&D budgets in France. Next, one third of groups selected the following criteria: benefiting from public assistance, the possibility of hiring qualified personnel, and breaking into a regulated market. By contrast, there was little mention of the other two criteria: creation or relocation near a technological center, and obtaining private finance.

Units located in France report greater autonomy of action for R&D than for intellectual property rights.

80% of groups with R&D in France report their French R&D units enjoy autonomy of action, of which 62% report significant autonomy, and 23% report that they merely adapt the group’s policy to the French market.

In the area of intellectual property rights management, only 50% of groups report they enjoy autonomy of action, but of those, 80% reported they enjoy significant autonomy of action. These IPR policies, more than any other policies, are a matter for groups’ overall asset management strategy and the potential valuation and utilization of their intangible assets.

Further reading

[1] KREMP (Élisabeth) and TESSIER (Luc): "Intangibles at the heart of enterprise strategy" 4-Pages, Sessi, no 217, May 2006
[2] CHANUT (Jean-Marie) and KREMP (Élisabeth): "Pas de frontières pour les groupes performants" (in French), 4-Pages, Sessi, no 216, April 2006