

Research Roundup

Research projects by universities, foundations and others which are useful for international management.

APPRAISING FOREIGN LICENSING PERFORMANCE

Enid Baird Lovell, Division of Business Practices, National Industrial Conference Board, N. Y.: National Industrial Conference Board (845 Third Ave.), 1969, 106 p. \$17.50.

This study describes the current attitudes and practices of U. S. companies in licensing arrangements. It is based on a detailed survey of 191 companies. Mrs. Lovell, having made a number of previous NICB international management studies, is thoroughly competent in the field. The result is an intensive and perceptive picture of the character of licensing in current U. S. foreign operations.

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Underlying all of Mrs. Lovell's findings is the theme of diversity. Motivations for licensing, types of arrangements, methods of management, and financial accounting vary greatly among firms precluding even an approximation of standard practice or normative guidelines. For example, some companies are whole heartedly committed to licensing as a primary means for overseas operations while others view it as a means for gaining some plus income with nominal effort or as a way to protect patent or trademark rights with little emphasis on income generation. These differences in motivations along with other variables lead to a host of variations in other characteristics. The report will be of great interest to managements therefore in providing a picture of the many options being exercised in other firms.

Overall Mrs. Lovell reports that licensing continues to grow but apparently at a slower rate and in a different manner than a few years ago. Both statistical data and comments from her survey suggest that straight licensing arrangements with non-related firms are less popular with the emphasis shifting more to licensing of subsidiaries and joint ventures. About half the firms reported they were moving in this direction. "In the process, licensing is rapidly losing its identity as a distinct and separate way of doing business abroad." Presumably related to this trend is the finding that about one third of the companies reported dissatisfaction with performance of individual licensing arrangements. The blending of investments and licensing as well as exports doubtless is also a major factor in the organizational handling of licensing. In the companies surveyed, only 19% had a full-time licensing coordinator or manager. The most common practice reported is for the top international executive to be responsible but with supervision of licensing operations to be disseminated among regional or other officers under him.

Mrs. Lovell devotes a large portion of her report to accounting practices. The overall impression conveyed by these sections is that the accounting effort and thus the knowledge of full financial performance is quite limited. While in some respects this is undesirable, by and large it seems to be consistent with the role of licensing and the options open to the firms. For example, where licensing is viewed as a defensive device for short-term market protection full analysis of the costs

Involved may not be worthwhile. Or, if licensing is employed as but one of the structural ties with subsidiaries, it may not be either useful or practical to try to unravel its costs from all of those involved in the relationships. Mrs. Lovell does note, however, that the limitations in accounting might prove troublesome in future tax questions though she has not explored this aspect in detail.

The report enumerates all of the types of financial gains and costs pertinent to licensing arrangements and indicates the incidence of each in the reporting companies and whether they are recorded in their accounts. Only a few obvious items such as royalties and costs of machinery provided are commonly recorded. A number of important ones are not. For example, of the 130 companies which incurred travel costs of supervisory and technical personnel to help licensees, only 56% kept separate records of these costs. On the income side, Mrs. Lovell identified 18 types of return but again only a few were generally recorded. For example, 122 firms indicated that they gained through sales of components or raw materials to licensees but only 46% of these kept separate records of the sales income.

Methods of upgrading performance and profitability are discussed briefly. "The top-ranking remedial measures are those that would entail an expanded rather than a reduced flow of rights and assistance." Among the methods are giving more technical advice, broadening product scope, and extending new licensing grants. There is also a discussion of evaluation methods. "In the absence of segregated cost and income records for individual licensing ventures, the assessment of licensee performance becomes more than ever a matter of management judgment." Mrs. Lovell lists some 15 performance factors of which most companies used 7 or 8 in making appraisals.