

## **ABSTRACT**

### **Intellectual Property as a Law of Organization**

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Conventionally intellectual property is understood as an instrument for promoting innovation incentives. But the incentive thesis has found indeterminate to variable empirical support across a variety of markets, in large part because firms often employ alternative mechanisms to capture returns on innovation investments. Expressly taking into account these private substitutes for intellectual property surprisingly provides the basis for rehabilitating the incentive thesis in modified form. Following this “quasi-incentive” thesis, intellectual property principally regulates the organizational structures that firms select in order to implement intellectual production, which in turn exerts effects over firms’ innovation behavior. Stronger or weaker intellectual property adjusts the expropriation risk to which firms are exposed in any negotiation with third-party suppliers of the tasks that must be implemented in order to bring an innovation to market. Weak intellectual property inflates contracting costs and compels firms to constrain expropriation risk by selecting integrated forms that independently implement supply-chain functions; conversely, strong intellectual property reduces contracting costs and enables firms to select weakly-integrated forms that allocate supply-chain functions to the least-cost combination of external providers. These relationships imply in turn that weak intellectual property raises entry barriers for firms that otherwise cannot finance integration costs; conversely, strong intellectual property rights lower entry barriers by relieving entrants from incurring those costs. Hence intellectual property regulates some firms’ innovation incentives but solely to the extent that it regulates those firms’ selection of organizational forms by which to conduct innovation. These claims are illustrated through a detailed case study of the “fabless” segment of the semiconductor industry.