Secrecy in Startups: An Empirical Study

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Abstract

Empirical studies of the use of trade secrecy are scant, and those focusing on startups non-existent. In this paper, we present the first set of data—drawn from the Berkeley Patent Survey—on the use of trade secrets by U.S. startup companies in the software, biotechnology, medical devices, and hardware industries. Specifically, we report on the prevalence of the use of trade secrecy among startups. Additionally, we assess the importance of trade secrets in relation to other forms of intellectual property protection and barriers to entry, such as patents, copyrights, first-mover advantage, and complementary assets. We segment these results by a variety of factors, including industry, company business model, overall revenue, patenting propensity, share of engineer employees, funding sources, innovation types, and licensing. From this segmentation, we implement a basic regression model and report on those factors showing a statistically significant relationship in the use of trade secrets by startups. Based upon these models, we examine the relative propensity of startups to choose secrecy over patenting. Finally, we comment on the limitations and implications of our results.