Directors are running out of IP excuses

Elsewhere in this issue of *IAM*, General Electric's new chief intellectual property counsel addresses a subject that is likely to be close to many readers' hearts. "Ten years ago," says Todd Dickinson, "if you asked the average board what its company's IT strategy was you probably would have got a number of responses reflecting different levels of knowledge and interest. If you ask boards the same question now you can bet that every single board member has an excellent handle on the subject. I think that IP is now where IT was 10 years ago. But that will change."

Dickinson's first two sentences are undoubtedly true. After years of education and growing scrutiny from investors, these days IT is acknowledged by senior executives to be a key driver of competitive advantage. It creates efficiencies, transforms business processes and leads to information superiority throughout an organisation. As a result, it is unusual to find any successful business that does not invest in IT and does not ensure, at the highest level, that IT strategy is a well-planned, coherent, company-wide operation.

His next two sentences, however, may raise more than a few eyebrows. Not because there is no truth in them but because they let off too many boards of directors too lightly. Of course, there are some organisations – and the number is growing – where directors have made the effort to understand their companies' IP portfolios. These directors have found the time and money to identify what they own and to put in place systems that ensure IP potential is maximised. As a result, their companies have strong intellectual property management and monetisation programmes and, more often than not, the person responsible for them either sits on the board or reports directly to it.

But such companies remain a small minority. By contrast, in most organisations, from some of the very biggest companies in the world to the most recent of high-tech start-ups, the management of intellectual property is separated from the day-to-day operation of the business. Intellectual property is not for the serious executive, so the thinking goes, it is something that lawyers do and that engineers or marketing people might worry about occasionally; it is an expense (it costs *how much* to get a copyright on that patent?); it has very little relevance outside of allowing a company to stake out a claim to work in a certain niche; and so on.

Those that work at the IP coalface will recognise such scenarios and arguments immediately. There can be few of them who have not had direct experience of that look of incomprehension any discussion of intellectual property brings to the faces of those in high places. And, of course, senior executives do have excuses: undeniably, they are very busy people, they have to prioritise; intellectual property is not something that shareholders seem to be interested in; they cut their teeth in business a long time before anyone ever spoke about intellectual property, how could they be expected to know anything about it? The list of get-out clauses is endless. But in the end, so what?

It is a point worth making time and again that, even during the most difficult economic times, the value most companies have on stock markets, or the valuations private companies are given by observers, greatly exceed their net book worth – often by a factor in double figures. The discrepancy between the two is explained by the value assigned to the intangibles these companies possess – most of which are intellectual assets such as intellectual property.

Should it really be acceptable that those in charge of businesses do not have a decent handle on what, in many cases, drives more than 50% of the entire value of the companies they run? The answer, surely, is no. There can be no excuse for such negligence. And this is especially the case given that it has never been easier for directors to get the information they need to make coherent and well-thought-out decisions about IP – arguably to the extent that if they do not choose to access it they are failing to do their jobs effectively: a stinging charge in this era of Sarbanes-Oxley, changing accounting procedures and shareholder suits.

At Danish life sciences company Novo Nordisk, when a potential line of research is discussed they undertake a state-of-the-art analysis to define the patent landscape within which the research is to be carried out. It gives a good idea of the level of competition in the area and the nature of the patents already owned (are they broad, for example?) to see if these could cause problems further down the line. The analysis plays a key part in the decision as to whether funds should be committed. If the go-ahead is given, invention-related disclosures generated by scientists are reviewed and prioritised for patenting purposes. At all times the company is concerned with freedom to operate issues – it wants to ensure that, when it commits millions of dollars to develop potential products, the money is not wasted because others already have patents covering the same invention or because so many people are working in the area it will be difficult to come up with anything new.

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The natural reaction of many will be to congratulate Novo Nordisk, and others that have similar procedures, for their foresight and common sense. But the truth is that the company is actually only doing what any prudent business should do before committing large sums to an uncertain exercise. Isn't it more pertinent to ask: why doesn't every company do this? How irresponsible is it to spend a large sum on researching an area only to find at the end of the day it is not possible to secure meaningful patent protection? Even worse, what if you end up with the patents but find yourselves on the wrong end of a lawyer's letter from a competitor giving you the option of either taking out a licence or going to court? Worst of all, how do you explain to angry shareholders what has happened?

Well, cost may be a favoured excuse. Companies such as Novo Nordisk have billion dollar plus turnovers and dedicated intellectual property teams. Not every outfit is in their position. True enough. But it is not a claim that stands up to much scrutiny. These days there are a number of tools out there that can help companies understand the patent landscapes within which they are operating. And they do not carry earth-shattering price tags.

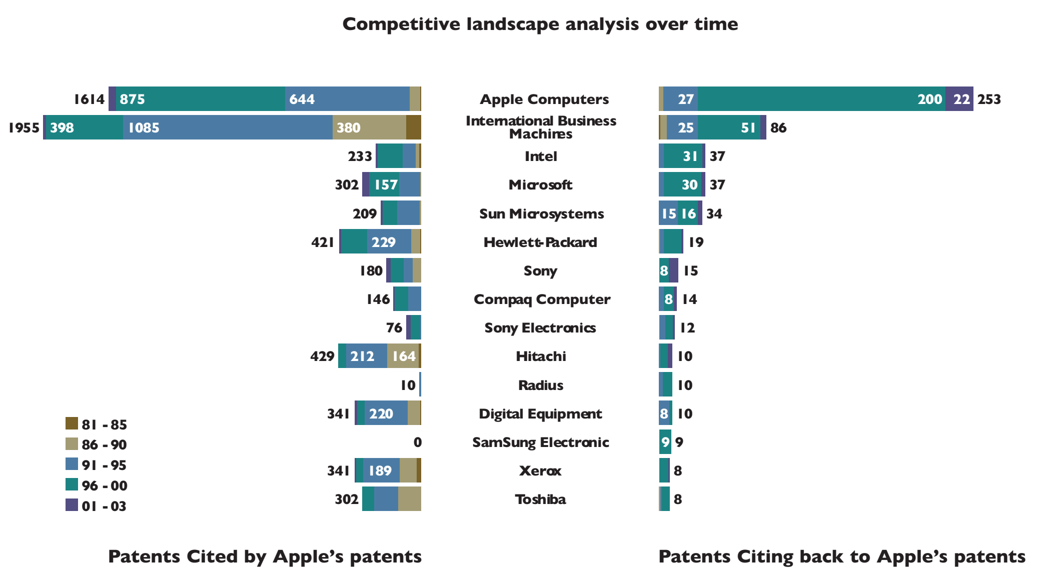
Take CPA's recently launched patent analytics service. For a price beginning at around US$5,000 the company can provide detailed information on the patent specifics of either a single company or an identified marketplace. Turnaround time is approximately 10 days. The intelligence reports that come back to a client will include close analysis of patenting activity, the patent landscape within which a company and/or a technology is sited, assessments of portfolio strength and potential areas in which portfolios are exposed. The details are presented in a format which makes heavy use of graphics, all of which are accompanied by explanations of what they represent. You do not need to be steeped in patent law and practice to understand them. In fact, you probably need very little specific patent knowledge at all.

The reports, which are all prepared by qualified patent attorneys using multiple information sources, provide a strong indication of a way in which a certain market is heading. They can signpost at a very early stage any problems that may potentially exist. For example, would a small medical devices company really want to commit its R&D budget to investigating an area in which companies such as, say, Baxter, Becton Dickinson and Boston Scientific are already very strong? On the more positive side of the equation, they can also detail areas in which patenting activity is less frenetic – so helping companies to identify potential opportunities for research and further development. In commissioning a report on its own activities, a company may find that it has an area of expertise that it is not exploiting to maximum effect. And if companies themselves can make such use of the information, so can investors, VCs and those that observe markets.

Of course, it is up to a company and its directors to decide whether to make use of CPA's reports, or those provided by other organisations. But the simple fact is that they are out there to be used. In CPA's case arguments about excessive cost do not stand up to any kind of close scrutiny; neither does an excuse that revolves around a slow turnaround time. It is also hard to imagine that many people will buy a plea that nobody knew such reports existed – it is incumbent upon companies to be looking for just such products.

When it comes to intellectual property, boards of directors continue to take huge risks. Increasingly, these risks cannot be justified – not only because of the potential damage they can cause, but also because they are not necessary. And for those holding senior posts this is the crux of the matter. Unavoidable risk is a part of doing business, but so is knowing when risks can be minimised. The ability to make such calls is what shareholders expect of those who run companies on their behalf. If they don't see it they will take the appropriate action.

Sample page from a CPA Patent Intelligence Report



The competitive landscape chart shows ownership of patents cited as prior art in the company's patent application. It also highlights third parties that cite the company's patents as precursors to their own patents. Citation analysis gives a good indication of the companies that are pacing the technology and those filing emerging technology solutions. This serves as a useful benchmark in identifying potential licensees and potential licensors.

Apple's top competitors, shown by this analysis are: IBM, Intel, Microsoft, Sun and HP. Sony has begun citing the latest Apple technology in the past three years which is a trend worth watching. Apple cites its earlier work more than any other organization, followed by IBM. This suggests that Apple is a consistent innovator, continually developing proprietary products. The trend citing earlier Apple patents creates a 'picket fence' of protection.