

INTELLECTUAL PROPERTY

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An enterprise's assets may broadly be divided into two categories: physical assets and intangible assets.¹ Certain corporate intangibles may be protected as forms of intellectual property rights (IPRs), giving rise to potentially valuable and powerful legally constructed monopolies over technology. Intangible IPRs exist even in simple machines, relying on a range of corporate-controlled and owned IPRs – from patents to designs and trademarks – in order to compete in the marketplace. Corporate IPRs ownership has become a central feature of modern economies because they assist companies in overcoming the problem of copycats, reduce the risk of competition, and stimulate investors to purchase company shares, raising capital for the firm. Further, IPRs enable numerous possibilities for creating new products and services that may give rise to modern business models to deliver future organisational value (both financial and reputational).

Directors are collectively responsible for optimising the firm's investment in its portfolio of IPRs to promote the success of the company. As

1 J. Denoncourt, *Intellectual Property, Finance and Corporate Governance* (2018) Routledge-Taylor Francis, p. 3.

the corporate law domain is increasingly crossing over to deal with IP law domain, directors have to manage the accountability aspect of their role in shaping an organisation's IPR portfolio, activities, technology, strategy, actions, values, and ethics. Directors need to consider the role and impact of entity-owned IPRs on their stake.

Composition of the board and oversight of technology and IP rights

As a matter of best practice, the composition of the board of an IP-centric entity should reflect its R&D, innovation, technology, IPRs, and business model. In line with their legal obligations, both executive and non-executive directors, as individuals and collectively, should possess a reasonable ability to engage with and be prepared to make decisions regarding corporate technology and IPR assets, seeking expert advice as necessary.

Corporate law has now expressly addressed “technology” and “IP” in its “soft law” 2018 Corporate Governance Code² and Guidance on Board Effectiveness for large and listed companies.³ For large and listed corporate boards to be effectual, they will be able to:

- (1) explain the main trends and factors affecting the long-term success and future viability of their company – for example, technological change or environmental impacts, and how these and the company's principal risks and uncertainties have been addressed; and
- (2) understand how *intangible* sources of value are developed, managed, and sustained – for example, a highly trained workforce, IP, or brand recognition.

Questions for directors

The best way for directors to manage complex technology and IPR issues is to ask questions. The IP landscape is sophisticated and complex, giving rise

² Revised Corporate Governance Code (18 July 2018) UK Financial Reporting Council.

³ See FRC at www.frc.org.uk/getattachment/61232f60-a338-471b-ba5a-bfed25219147/2018-Guidance-on-Board-Effectiveness-FINAL.PDF, accessed on 2 February 2019.

to significant opportunities and risks, particularly if businesses fail to implement an IP strategy appropriate for the company's business model. Creating and following an IP strategy will help de-risk the company's business activities. It can also support revenue generation through a licensing or royalty programme with third parties or partner organisations.

What do we invent and how do we create?

- What registered (patent, trademarks, designs) and unregistered (copyright, trade secrets) IPRs does the company own and control?
- What technology does the company own and control?
- Does the company employ researchers, inventors, and creators? If so, is there a company IP policy?
- Who are the company's KEY personnel responsible for innovation and creation?
- Is their contribution to the success of the company acknowledged and appropriately rewarded in accordance with the law?⁴
- Who is responsible for managing and coordinating corporate technology and IPRs internally?
- Who are the appointed IPR external advisers and are they appropriately qualified?
- When was the last corporate IP audit undertaken to locate and understand the company's existing portfolio of IPRs?
- How and where are key IP records and documents stored and shared?
- Do company employees have the necessary level of IP awareness to protect corporate IP?
- When employees leave the company, is their exit managed in an "IP aware" manner?

4 Since the introduction of the UK Patent Act 1977, employee inventors are entitled under s 40 to statutory compensation for certain inventions owned by the owner-company. For example, according to CMS Employee Inventor Reward Survey (2014), 82% of respondents indicated that they offer rewards to employee inventors in Europe, see <https://cms.law/en/Media/Local/CMS-CMNO/.../Employee-Inventor-Rewards-Survey>, accessed on 30 May 2019.

Corporate technology and IP strategy

- Is the company's business model dependent on technology and monopoly IPR protection?
- To what extent does the company's portfolio of IPRs protect the technology? In other words, does the company have "freedom to operate," or does it need to obtain permission from another IP owner?
- What is the technology readiness level⁵ (TRL) of the new or core technologies?
- who are the company's competitors, and do we have intelligence on their activities?
- How does the company's IP position compare with its peers?
- Who are collaborators or potential collaborators?
- What new innovations and creations merit investment and human resources to develop?

IP value

- How and how much does the company's technology and IP contribute in terms of value?
- What is the current financial status of the technology and portfolio of IPRs?
- How should the company track the investment in and performance of its technology and IPRs over time (metrics and performance indicators)?

De-risking corporate IP rights management

- What risks does our IP, or lack of IP, rights expose the company to?
- Is the company's technology at risk of obsolescence?
- What principle risks and uncertainties are associated with the technology and key IPRs (for example, expiration, infringement, or enforcement litigation, licensing and so on)?

5 The TRL system is a well-established method of estimating the maturity of critical technology developments on a scale of one to nine, with nine being the most mature technology. It was originally developed by the US National Aeronautics and Space Agency (NASA) in the 1980s.

- Are existing IP management plans being followed? Does the company need to probe further to uncover issues and/or to address red flags? Loss of key inventors and creators?

Values and IP ethics

- Is continued investment in technology and IPRs sustainable and socially responsible?
- Are the company's technology and IP-related activities, actions, and ethics in line with company culture and able to withstand regulatory and public scrutiny?

Accountability, transparency, and mandated corporate reporting

- Does the company need to specifically report the value of our corporate intangible IPRs in line with International Accounting Standard 38 Intangibles, include additional notes to the financial accounts, and deal with technology and IP rights in our narrative reporting?

In conclusion, this series of questions provides a good starting point to support directors to identify corporate IP and relevant human capital, and then begin to analyse more complex technology and IPR strategy and risk issues. Ultimately, the goal is to deploy corporate IPRs, create value for the company, and improve corporate performance, management oversight, and behaviours in line with their duty as fiduciaries.