APPENDIX

2003 IPO SURVEY ON STRATEGIC IP MANAGEMENT

In a program on "Managing Corporate IP Today" of the Intellectual Property Owners Association (IPO) in Washington on November 10, 2003, Professors Iain Cockburn of Boston University and Rebecca Henderson of MIT unveiled the findings from a survey on "Strategic Management in America's Corporations," sponsored by IPO.

At the outset the presenters stated that the survey results were "hugely interesting," "counterintuitive" and "puzzling" and "not at all what one might expect." They concluded that common perceptions that

- strategic management is a critical aspect of building and sustaining competitive advantage,
- IP strategy should be an intimate part of business strategy,
- the IP function should be tightly integrated in the corporate fabric,
- "best practices" in the management of IP have developed and
- aggressive strategic management of the IP portfolio can generate very real economic gains,

"are based on anecdotes(!)."

Their survey dealt with three major questions, as follows:

1. **What is the role of the IP function within corporations today?**

How is the IP function structured? Is it integrated with other corporate functions such as marketing and sales? How are individuals motivated and rewarded for creating or managing IP?

And the findings were:

- there is doubt that IP strategy is of critical concern and that there is such a thing as "best practices;"
- IP strategy is a routine aspect of day-to-day business decisions (64%);
- competitive advantage would erode (70%) and less would be spent on R&D (56%) without patent protection but competitive advantage is built on proprietary technology (92%);
- top leadership is only rarely involved in IP issues (35%), IP policy is determined below (majority) and chief IP counsel is not on the senior management committee (71%);
- routine management of IP is quite diverse and formal Patent Review Boards to decide on patenting exist in only half of the companies;
- cross-functional IP management is quite rare: mostly R&D and marketing are represented on Review Boards;
- the IP function is not closely integrated with the rest of the business and surprisingly Finance plays almost no role in IP decisions;
- budget constraints are big challenges in managing IP (70%);
- as regards inventor incentive schemes, there is sharp focus on patents, typically $1,000 and a dinner and plague after issuance;

- ”getting patents is part of the job,” more patents equals worse patents and this diverts efforts away from solving problems and towards “paper” patents;
- no payments are given based on product sales or licensing royalties.

2. **Do companies today really act strategically in obtaining and exploiting IP?** How important is IP as an element of overall corporate strategy? What is the role of trade secrets versus patents in establishing and defending a proprietary technology position? When and how are patents actively used as a strategic weapon? How significant is IP licensing as a way of realizing value from innovation?

And the findings were:

- Patents are often not viewed as a panacea but as a side show inasmuch as patents have limits — publication, inventing around and inability to patent much innovation;
- for over one half of the respondents IP is primarily important as a defensive tool;
- proprietary technology is highly rated as a key source of competitive advantage and the really important intellectual assets are skills and knowledge (88%) (which implicates trade secrets);
- licensing is important but has low budget priority and is not central to IP strategy and “fully 35% of the responding companies appear not to think in terms of generating licensing revenues at all”;
- IP departments may be too financially constrained to aggressively pursue licensing opportunities;
- an average of 27% of patent licensing involves cross-licensing, alliance agreements, etc., over 25% of technology licensing does not involve patents and only 9% of patents are held only for potential licensing;
- IP counsel is not always involved in licensing decisions (24%).

3. **What is the significance of “freedom to operate” to corporate IP practice?** What constitutes “freedom to operate”? What different approaches do companies take to establish it?

And the findings were:

- for 98% of the companies maintaining freedom to operate in core technologies and businesses is a key criterion in a successful patent strategy;
- 35% of a patent portfolio is so used compared to 47% of a patent portfolio being used to protect current product lines from imitation;
- some companies dominate an industry by controlling key patents — others, by holding important technology as trade secrets, which places limits on ability to compete;
- competitors’ patents may stop or impact pursuing otherwise promising technologies but 67% of the companies believes that “with enough money, and the right people most patents can be invented around.”

Incidentally, this survey also elicited responses to policy issues and turned up strong support for

- more stringent patent examination
- post-grant opposition system
- extensive prior user rights and
- adoption of a first-to-file system.

How are these survey results to be interpreted? Nirvana of a perfect IP strategy in terms of the last of the five levels of value hierarchy, described in “Edison in the Boardroom” has not yet been reached or too many corporations are still anchored in an old outdated mindset or there is resistance to the hype and hoopla of the Big Five accounting firms (and their “accounting hocus-pocus” per *Business Week*), web-based service providers and consultants about IP value extraction and monetization.