Bloomberg BNA

BNA's
Patent, Trademark & Copyright Journal®

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The authors make the case for an intellectual property-intensive firm to implement a program for handling innovation contributions from outside the organization.

Navigating Intellectual Property Roadblocks to Open Innovation

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In an effort to accelerate new product development and bolster innovation, a significant number of firms have opened their organizational boundaries to external ideas. Over the past several years, companies of all sizes—most notably large multinational companies such as Johnson & Johnson, CitiCorp, Kraft, IBM and 3M—have initiated open innovation (OI) programs. The OI phenomenon is expected to spread as more and more organizations realize the benefits.

In broad terms, OI is the process of obtaining, evaluating, selecting, and applying ideas from *outside an organization* to improve or add to the products, services, processes, or business practices a firm offers. With an OI initiative, a firm typically continues to nurture its internal R&D efforts, but it sets up new practices and procedures to encourage the intake of externally-sourced ideas and innovation. Because of the nature and purposes of intellectual property, OI presents unique IP challenges.

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Upsides—and Potential Downsides—of Open Innovation

OI has already evolved beyond the consumer-oriented markets (*''email us with your best idea for a new ice cream flavor!''*). OI is rapidly spreading to more technology and patent-centric industries, such as the manufacturing, software, and life sciences markets. For example, companies that create software are experiencing pressure to open up their code writing from the free-and-open-source-software (FOSS) movement. The benefits to any organization accepting new product ideas through OI have become threefold: (1) reduce research and development costs; (2) develop new products to fuel sales faster; and (3) gain access to more creative and imaginative solutions. But organizations accepting outside submissions must deal with the ''not invented here'' syndrome that persists in many companies, as well as the expectations of the external submitters.

Of course, submitters from outside the organization typically expect to receive benefits from their ideas, via some form of compensation. Creative individuals have high hopes that if their ideas are selected for licensing or acquisition, and then successfully developed and commercialized, they will be fairly compensated. But

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these creative individuals (or creative organizations who employ such people) are often concerned about their loss of leverage if their ideas are not accepted. Hence, IP issues are often at top of mind to both receiving organizations and to the submitters.

It is plain that the economic and other business benefits of OI can be diminished when a company is not prepared to effectively manage potential legal issues that can—and often—arise, especially those related to intellectual property.

Inherent IP and Legal OI Concerns

Intellectual property and legal concerns are generally considered the most problematic and complex issues facing the key parties in the open innovation process: external innovators and receiving companies. On one side, the submitter needs to protect its IP and trade secrets. On the other side, the receiving company needs to protect itself from litigation if the submitted information is not properly managed and confidentiality is not maintained. The risks are amplified in everyone's mind if an idea is heavily modified for acceptance—or outright rejected.

Companies implementing OI programs must establish and maintain a reputation of trustworthiness and be viewed as a reliable development partner for external innovators to overcome their IP apprehensions. From the outset, OI companies should (a) provide clear and prompt communications to their innovation community, (b) afford access to OI officers, and (c) to contain costs, minimize the involvement of lawyers in initial technology assessment conversations. Although the use of legal counsel for both parties may eventually be necessary to close a complex deal, both parties can benefit from systems and procedures that maximize the trust in the initial exchanges and postpone the expense and delay of legal wrangling until a deal is near at hand.

The OI firm may also need to put mechanisms in place to prevent accusations of misappropriation and ownership of IP generated by others. Firewalls or dedicated idea portals with structured IP disclosure processes are often the first line of defense. Documenting the timeframe and details of receipt of the submitted idea is critically important to preclude litigation that could arise downstream if the received IP is very similar to existing internal research. A ''staged'' disclosure process can help assuage the fears of submitters and recipients.

IP *ownership* is often a sticking point. Many corporate and IP lawyers often insist on either acquiring full ownership or strictly limiting disclosure of IP when dealing with an innovation and its creator. Corporations generally will disqualify innovations from intake under two major conditions: 1.) those that are in early-stage development where IP rights are very uncertain, or 2.) those where licensing or assignment agreements prohibit clear IP ownership by one party or the other.

The potential for dispute over IP ownership can forestall the OI process. Issues with IP ownership were actually exacerbated by the passing of the Leahy-Smith America Invents Act (AIA) in 2011, which became fully effective in 2013. The AIA drastically modified patent law, giving patent rights to the ''first to file'' a patent application. This is a radical change from the longstanding U.S. practice of granting patents to the ''first to invent.'' This change alone is responsible for increasing IP paranoia and the urgency to move innovations more rapidly from early- stage concept to formal patent filings.

In addition, if OI is not implemented in an adequately documented and systematic fashion that is respectful of IP concerns, one or more of the following issues could arise.

- Inhibited internal R&D efforts: A loosely-defined OI intake could result in the company receiving IP very similar to current or planned research at the receiving company, and thereby threaten prior R&D investment.

- Corporate IP permeability: Accepting confidential information via unprotected avenues—such as emails, at trade conferences or directly via the ''Contact Us'' page on the company's website—may inadvertently expose the company to IP litigation if confidential matter is disclosed in unstructured formats and without the proper terms, warnings, and prompts. Digital IP permeability is heightened by not having a standardized format for idea submission.

- Downstream IP litigation: Claims of IP ownership or misappropriation can arise if the development timeline and disclosure from the submitter is not well documented, or if initial IP ownership is clouded by joint development efforts.

- Freedom to operate: If the IP is pre-patent protected but covered by a confidential disclosure agreement (CDA), it may restrict the receiving company from pursuing similar research. Signing too many CDAs too soon can be troublesome for the receiving party.

Controlling OI Costs and Potential Liability

Companies in IP-sensitive industries that adopt OI can better control the costs and potential liability by using new software and automated smart portal systems to address specific issues and thereby optimize the overall effectiveness of their OI programs. These issues include:

- **Quality of Ideas Submitted:** The quality of ideas and innovations submitted through an open innovation system is largely dependent upon the way ideas are solicited and collected. Without specific technical expertise or intimate knowledge of the receiving company's strategic plan, submitters may contribute ideas that are not only off base, but fall into areas where the company has already generated a plethora of their own ideas. The overall quality of ideas submitted is improved when the receiving company indicates to potential submitters the types of innovations needed or wanted.

- **Quantity of OI Ideas:** In a truly ''open'' innovation-capture process, the number of submissions often is so voluminous that the efficiency of the company's OI process can be severely hindered. Without both a structured screening process and structured data capture with software analytics, a high volume of ideas may make it difficult to review and document all of them using manual approaches.

- **Idea Processing Efficiency:** For many companies, idea filtration, management, and selection are key measures of OI success. But from an intellectual property risk management perspective, the official and documented ''disposal'' of other ideas is also a measure of

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success—legal risk avoidance success. Having a record that illustrates how an idea was reviewed and rejected, or advanced for further pursuit, allows legal counsel the opportunity to limit risk with strong documentation of the disclosure process along the way.

Solutions to Improve the Effectiveness of OI in Patent-Sensitive Industries The following strategies, tactics, and governance systems can help companies securely manage external innovations in a new way that provides comprehensive protection while ensuring more global reach into social ideation.

1. Signaling (garnering the right type of idea)—There is the ever-present challenge to attract submissions from the right people who have the right technical expertise, while trying to exclude ideas that have no value to a company's strategic direction. The answer lies in use of proper *signaling*, i.e., communications, to potential submitting entities. Companies implementing open innovation programs can accomplish this by establishing and promoting a customer-facing ''Submit Your Idea'' portal or link on the company's website. The purpose of such a ''signaling'' tool is to publicize current and future areas of research, specialization interests, product or technology roadmaps, and particular problems that need resolution—and attract quality submissions.

2. Structuring (standardizing the content)—Intellectual property is best protected when a structured process is established and rigorously enforced during the front and back end of the OI process. The structuring process establishes prerequisites for the submitter (such as a patent or patent-pending technology), or the acceptance of the receiving company's legal terms and conditions. An open innovation idea-capture methodology can provide this necessary structure through a customized web-based ''innovation portal'' to digitize and process both unsolicited and solicited ideas, using proprietary business-decision support algorithms with automated analytics. Importantly, the innovation portal can help limit IP legal exposure by enforcing a logical sequence of disclosure controls on the submitted content.

3. Selecting workflows to aid in due diligence—Once ideas have been accepted, use of an automated (software-implemented) system can increase the efficiency of evaluation of ideas for business value based on company-specific criteria and selection of those for acceptance and/or further consideration. This selection step involves establishing evaluation criteria, and workflows to score, rank, and share information in a repeatable and standardized assessment process. The best systems calculate factors, such as regulatory burdens, market size, and manufacturing requirements, to provide a detailed technology assessment and ensure that the submitted ideas are a fit for the receiving entity.

Typically, after idea capture, a cross-functional ''internal'' team rates, ranks, and votes on the merit of each OI idea using the criteria including but not limited to technological merit, regulatory and risk classification, ingredients or materials already in use, maturity level, market direction, and strategic fit. Most firms will include both a technical and legal review; others include a marketing review as well. In some companies, reviews are conducted sequentially while other companies conduct parallel reviews in order to accelerate the time to market.

Conclusion

Companies in technology and IP-sensitive industries that adopt OI can better control the costs and potential legal risks by using an automated Innovation Portal system to optimize the effectiveness of their OI programs. In patent-centric industries where intellectual property (IP) serves as a necessary barrier to entry, patent restrictions and other legal issues are now more pressing than ever. The America Invents Act, which was supposed to improve the legal innovation environment, is instead proving that it can complicate the OI process if organizations do not adapt accordingly—for speed, flexibility, and adequate legal documentation. To be successful for an IO program, a process and governance system must be in place to effectively sort through a potentially large volume of idea submissions to efficiently identify and select those few high quality ideas that hold the potential of a profitable return.