

BEING SENSITIVE TO IP

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In the knowledge economy of the 21st century, intellectual property (IP) has come to be one of the dominant drivers of economic value. In many companies, it drives the commercial viability of their business.

The poor management of IP can easily turn the tide against a company that underestimates its potential and fails to protect and harness IP well. IP is thus fast becoming a fundamental business tool that needs the board's oversight.

Yet, many directors tend to dismiss IP as only about patents, and something for the lawyers to deal with.

MORE THAN PATENTS

IP is often misconceived (even among C-suites who should know better) as some fancy word for “patents” and “registered trademarks”.

Singapore’s *IP Hub Master Plan* – which was released in March 2013 to guide Singapore’s development as an IP hub into the next decade – may have inadvertently helped to reinforce this false impression with its heavy emphasis on patents.

In fact, IP goes beyond trademarks and patents, and extends to the nuts and bolts of businesses. It includes trade secrets and know-how, confidential information, copyright, unregistered trademarks, designs, and domain names.

And it even extends to business processes, new sales channels, customer and production expertise, brand and corporate identity, product names, new product development and implementation strategies.

All these give rise to various rights connected with unfair competition and protection of business goodwill.

Since virtually every active business ticks several of the above boxes, it is no exaggeration to say that IP, in its broad definition, is therefore critical to every business.

MORE THAN LAWYERS

It is not uncommon to hear directors and even senior management say that IP is not something they worry about as they have hired lawyers to deal with “trademarks and that sort of stuff”.

Before IP was a key determinant of a company’s market value, it may have been enough to leave it to the lawyers to look after the

necessary registrations to protect the company's trademarks and enforce these rights.

But what about company assets such as the customer database and market insights that give a company its competitive advantage? These also deserve some level of proprietary protection.

Lawyers can and should play a more robust role in these instances too.

They can, for example, build confidentiality, non-solicitation and non-competition obligations into employment contracts to apply restraints on employees from setting up businesses in competition with their employer or joining a competitor and taking trade secrets or other employees away with them. They can then help enforce this in the event of a breach.

The reality though is that where there has been a breach, legal action is usually too little, too late. Internal processes for keeping customer lists and sensitive business information well guarded have therefore as much to do with IP management processes as they have to do with legal enforcement.

The risk of loss, for example, can be reduced by giving information access to only those employees with a need to know.

It can additionally be achieved by designing and implementing systems and processes, such as the keeping of a log to record those staff who download the information and/or those who send it outside the company to external email addresses.

THE BOARD'S ROLE

Directors may be in breach of their fiduciary duties should they be found to have not taken steps to ensure that management designs and implements the necessary controls over the company's key

assets. Significant IP assets are often a critical part of the company's overall assets.

Directors therefore need to understand what IP their company holds and what it will likely develop in the future. Upon knowing this, they will then be able to evaluate management's views about which IP rights matter a lot – and which do not matter as much.

For IP that matters less, the board should ask questions such as: Is protecting it an unnecessary expense? Could it be exploited further by selling or licensing it? Or, is it merely idle and has strategic potential that is being wasted?

For IP that matters more, the board should understand what is the most valuable of the IP rights, and why. Directors should require management to institute IP operational processes, including information security management processes to protect them in a commercially focused and practical way. Legal protection can complement this and is a necessary backup to it.

More to the point, directors should understand how, as a business tool, valuable IP is tied to the broader business strategy. If management is not making that connection, the board should insist that it does so. Otherwise, the strategy should be changed or the company's IP put into a “does not matter” bucket and dealt with accordingly.

The board should be vigilant about the company's management implementing a commercially focused IP strategy and IP management processes that deliver value to shareholders. This must matter to all directors. ■