



MANAGING INTELLECTUAL PROPERTY ISSUES WITH DIVERSE OPEN INNOVATION SOLUTION PROVIDERS



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Introduction

Global 1000 companies have eagerly embraced the promise of open innovation as a path to build synergy between their internal strengths and the knowledge and capabilities of the global innovation network. The first challenge for these companies is to establish access to the extensive and diverse global community. In addition to establishing access, innovation seekers must prepare themselves to negotiate and ultimately collaborate with organizations that may be dissimilar in size and culture. This white paper addresses the additional factors that large corporations should consider when the potential innovation partner is not a Global 1000 company.

One model that has emerged is the use of an intermediary between corporations seeking new technology and technology solution providers. The success of these open innovation intermediaries has created a new challenge for innovative companies: managing and negotiating intellectual property with a highly diverse solution provider community that can range from large corporations to independent individuals.

Global, multi-national companies are generally familiar with and trained in managing intellectual property disclosure and negotiations with solution providers who are similar in structure and culture, such as other large corporations who may be competitors or suppliers. Although these collaborations often result in a face-off between two highly skilled corporate legal teams, the fact that both teams “speak the same language” benefits the negotiation.

Due to the broad and varied global innovation network, open innovation intermediaries frequently identify solution provider organizations that differ greatly from large corporations, creating a “David & Goliath” scenario. This diverse solution provider group includes:

- privately-held, innovative start-up companies
- mid-sized privately-held companies
- solo solution providers affiliated with independent research centers
- professors affiliated with universities
- professors independently offering their services through their private consulting practices
- research institutes, often government financed

The dynamics of a negotiation between these parties and a large corporation are often outside the experience of the corporate negotiation teams. As a result, more companies are turning to intermediaries that have developed better practices for managing and negotiating intellectual property that can help them achieve their open innovation goals with all types of solution providers.

These better practices guide corporations in:

- *When to introduce intellectual property issues*
- *How to introduce intellectual property issues*
- *When to move from a non-confidential to a confidential environment*
- *The role of an external facilitator/mediator during negotiation*
- *Preparing to be a good open innovation partner*

When to introduce intellectual property issues

Innovation projects led by R&D and/or Engineering groups tend to focus first on technology assessment, reflecting the project leader's "comfort zone." The R&D project leader may be less experienced in addressing commercial and intellectual property issues. As a result, the project leader may delay discussions on these topics until both parties have agreed to the project scope and deliverables.

Opening a discussion on intellectual property during the final negotiation stage creates the most challenging scenario. Why?

- **Investment:** Both parties are highly vested in their position by the time they reach the negotiation phase, limiting the potential for compromise.
- **Expectations:** The R&D corporate and solution provider teams often create expectations and assumptions during early-stage discussions. The corporate legal team may not be aware of these undocumented understandings if they have not participated in early-stage discussions. The solution provider can feel betrayed and highly disappointed by a perceived change in intention.
- **Power:** If the corporate legal team is aggressive and inflexible, it can overpower the solution provider's legal team and destroy the trust established between the corporate R&D and solution provider teams.
- **Respect:** The corporate legal team may be insensitive to the solution provider's perception that big corporations have the capability to "steal" the technology and benefit without fairly compensating the solution provider.
- **Personal and Cultural:** Whereas corporations tend to be impersonal, solution provider entities tend to be highly personal and emotionally attached to the proposed technology. If the corporate legal team treats the solution provider like a large corporate entity, it is more difficult for the two parties to establish rapport and overcome contentious issues.

It is recommended that intellectual property expectations be addressed during an early discussion between the parties and during the first discussion if the corporate project team and the solution provider have been introduced by an open innovation intermediary. This ensures that:

1. The two parties align their intellectual property expectations before engaging in extended technology discussions
2. Unrealistic or unbalanced intellectual property demands are vetted before both parties invest time and effort
 - Some corporations have unusual intellectual property policies, such as not issuing NDA's under any conditions
 - Not-for-profit entities like universities have intellectual property limitations
3. Both parties proceed to next steps on equal ground, building trust and respecting their mutual rights
4. The legal teams actively engage in the final negotiation to create a written document that reflects the essence of earlier IP discussions

How to introduce intellectual property issues

The key responsibility of open innovation project leaders in R&D or Engineering is to determine if solution providers actually solve the company's challenge. This decision must include the assessment of intellectual property and commercial issues, in addition to technical feasibility, to ensure buy-in from cross-functional stakeholders.

At this point, it is recommended to establish a cross-functional project team with individuals representing key internal stakeholders. The R&D participant assumes the project leader role and manages the evaluation by a team comprised of individuals with varied skills, interests, and responsibilities, to:

- Assess technical feasibility
- Devise and conduct testing and/or evaluation procedures (R&D)
- Implement the scale-up (engineering, operations)
- Establish the business case, cost structure and commercial feasibility (marketing, product development)
- Identify intellectual property issues and positions (legal)
- Initiate procurement terms (purchasing)

Corporate teams can range in size from two to eight individuals, depending on their organizational structure. Ideally, the team should include decision-makers who can make commitments and negotiate in good faith for their company, and whose recommendations will be supported by senior executives.

A note regarding legal counsel on the project team:

Companies are sometimes reluctant to engage their legal counsel on the project team early in the evaluation, because of the time commitment. There are several ways to overcome this concern while including input from the legal group.

- Include a team member who is versed in intellectual property issues and is familiar with the company's IP policy
- Include a junior legal person who can communicate and get input from senior counsel.
- Bring legal counsel in at key points throughout the evaluation process, to establish IP expectations and to ensure that the evolution of the project does not adversely impact IP

When to move from a non-confidential to a confidential environment

In today's IP environment, both corporations seeking new technology and technology solution providers are highly protective of their proprietary knowledge and sensitive to issues related to confidentiality and NDA's.

The typical corporation views the solution provider as the "public" and is extremely cautious about sharing information that could leak strategic initiatives to this unscreened party. The solution provider's perception is equally one-sided, suspicious that the corporation will "steal" his concept and develop it independently using their abundant resources. Although both parties' viewpoints are exaggerated, it is important to consider the lack of trust that grows out of the inherent inequality of the relationship between a large corporation and an independent solution provider.

Although the conservative approach might be to establish NDA's early and often, experiences suggest that companies in this type of collaboration delay the NDA as long as possible. Why?

- Neither corporations nor solution providers are eager to establish confidentiality with parties who will not ultimately become partners.
- Once confidentiality is established, fewer individuals can be exposed to the solution provider to create confidentiality firewalls. An NDA during early-stage evaluation will therefore inhibit stakeholder participation at a stage when it is critical to the process.
- Both parties can exchange highly relevant information without an NDA. For example, the provider can describe how the technology works and what it achieves, without sharing specifically what occurs. The corporation can describe the technological goal including target performance parameters, often without disclosing the specific application.

It is recommended that corporate technology seekers and solution providers delay executing confidentiality agreements until the parties address all technical, commercial and legal issues that can be discussed in a non-confidential environment. Obviously, some projects require confidentiality to establish technical feasibility, but even delaying the NDA until there is mutual intent to collaborate ensures that both parties are equally vested in a partnership.

The role of an external facilitator/mediator during negotiation

The assessment stage is often referred to as the “courting period” between the corporate technology seeker and the solution provider. The parties are evaluating the potential benefits and risks in creating a “marriage” with a provider.

During the early evaluation, the two parties tend to be optimistic, discounting the intellectual property challenges of a partnership. IP negotiations can be a harsh reminder of the risks and challenges inherent in their proposed collaboration. In spite of both parties’ positive intentions, the contentiousness of the negotiation can spoil the good will established earlier between the two parties.

Large corporations have looked to an intermediary to act as a facilitator and mediator during the negotiation stage. The advantage of an intermediary is that it can encourage and maintain positive solution provider communication, even as the parties are reconciling conflicts. The intermediary focuses both parties on their common goal to establish a successful, long-term open innovation collaboration with a fair agreement providing mutual benefit. Intermediaries can play a strategic role during negotiations by:

- Sharing common practices on relevant topics with both parties, like structuring open innovation statements of work and IP expectations,
- Balancing both parties’ interests and giving voice to concerns related to “unreasonable expectations”,
- Facilitating discussion to seek creative compromises without contributing legal counsel or taking a position in the negotiation,
- Providing each partner with a deal facilitation team that specializes in expediting and managing the assessment and negotiation processes. These deal facilitation experts partner with the corporation’s assessment team to maximize outcome on every project. Both parties are focused on the accomplishment of their contract signing and the acknowledgment that it is the first step in their open innovation success.

Intermediaries can maintain focus on the parties’ common goals and potential mutual benefit during the negotiation when contractual issues can sometimes overshadow their original good will. Since the contract is the first step in achieving their open innovation goals, it is critical that both parties stay focused on the “prize”.

Preparing to be a good open innovation partner

The companies that are most successful in negotiating open innovation collaborations begin preparing long before they engage with any solution providers.

Companies should prepare their leadership and stakeholders in their organizations to:

- Recognize that open innovation is unique and is likely to push the organization into uncharted territory. Whereas legal and procurement corporate precedent is generally established in black & white scenarios, open innovation operates in the “gray” and will require flexibility.
- Know the organization’s intellectual property policy, precedents, expectations and assumptions. Discuss how these may differ from project to project, and how they will relate to open innovation situations.
- Establish open innovation intellectual property guidelines and policies and identify the individuals in the organization who are authorized to negotiate exceptions.
- Set internal expectations for IP during each phase of the proposed project, starting with proof of concept and going through scale-up.
- Discuss the company’s appetite for risk and outline expectations for the “ideal provider” that represents its desired position on the risk/reward continuum.
- Open internal discussions with all stakeholders prior to engaging any external solution provider to establish the company’s expectations and assumptions. Stakeholders include the business team, R&D, Engineering, Purchasing, and Legal.

These preparatory discussions will align the organization around the open innovation policies that must be faced in negotiating the collaboration. Successful companies have found that clearly identifying their objectives allows them to navigate the difficult issues to achieve their goals in an open innovation environment.

Conclusion

The success and evolution of open innovation business models has created opportunities for visionary Global 1000 companies to tap into the best technology globally. The challenge today is to define how to maximize the value of these external open innovation opportunities and turn them into measurable results.

With the best of intentions, innovation seekers can sometimes fail in their efforts to achieve partnerships with diverse solution providers. Experience suggests that any two organizations can successfully negotiate IP terms if they carefully plan their approach and follow key guidelines. A \$100 billion corporate giant can partner with a technology start-up company and together develop a game-changing technology that generates financial rewards and delivers value to the end-user. The companies who learn to effectively and efficiently build their external innovation networks with these diverse solution providers will lead in the global marketplace.

