

Strategies for a super CIPO

The growth of chief IP officers is the latest trend in the corporate world. But, says, **Robert Greene Sterne**, each company must tailor the position to achieve success

The relationship between the general counsel and the chief intellectual property officer (CIPO) of companies is complex and evolving as the role of the CIPO becomes more common in the corporate world.

The CIPO position is a recent one that has been created by the boards and senior management of several large companies, including IBM, HP, SAP, Yahoo!, Boeing, GE, and Microsoft. The CIPO in some companies is called the vice-president for IP/strategy depending on management structure and the reporting relationships. The first CIPO position may have been at SAP, although companies like IBM have been big innovators in increasing their IP return on investment (ROI).

Conceptually the CIPO is the senior officer in the company responsible for maintaining and enhancing the ROI of the company's IP assets. The focus and responsibility of the CIPO is to maximize IP ROI by taking a comprehensive view of the products, services, business models, customers, competitors, standards bodies, regulatory issues, and competitive trends of the company and its markets and technology to map and optimize all the IP opportunities. The CIPO is the czar of all IP assets of the company.

This concept is a lofty and seemingly daunting objective, which will be hard to achieve unless the CIPO has full cooperation and support from all parts of the company. This cooperation and support is especially necessary from the general counsel, who usually manages many of the resources, including people and money, which the CIPO will need to control to succeed. As Joseph Siino, vice-president of intellectual property for Yahoo!, says: "Proper management of IP assets is truly an interdisciplinary endeavour, requiring deep engagement by a company's most senior business, legal and technology leaders. The value of IP assets, however, can be maintained and maximized only through the effective deployment of legal personnel and tools – both of which are under the general counsel's direct management."

Not just a legal post

Corporate executives often ask why they should create this new executive level position, which is the first since the creation of the chief information officer (CIO). The same question was raised when the CIO position was first proposed but that job has now been successfully established in the leading companies. Traditionally the chief IP attorney of the company, reporting to the general counsel, has handled important IP assets, but the focus of that job has been narrow and mostly involves protecting the company from lawsuits and downside IP risk. This defensive stance has usually been reactive.

In contrast, based on the arguments of IP best practices experts, boards and senior management have come to realize that optimizing the ROI of the IP asset requires a comprehensive approach that is offensive as well as defensive, and is proactive as well as reactive. The task requires full understanding and

appreciation of the technology, business models, governmental affairs, competitive forces and markets of the company's products and services to optimize the IP strategies and assets applied to them. Thus, best practice thinking is that the CIPO must be taken outside of the general counsel reporting structure and put on a par with executive level management to be able to interact and direct the IP decisions of all parts of the company.

Says Tim J Crean, CIPO for SAP, who reports directly to SAP's chief executive officer in Germany: "I think of it as a business development role in which we are 1) accelerating entry into new markets, 2) defending current market positions, 3) creating valuable partnerships, and 4) setting industry technology standards beneficial to the company."

Joe Beyers, vice-president of IP licensing at HP, believes that what distinguishes a business-led IP licensing programme from a legal function is the business team's ability to utilize the assets and market position of a company to create innovative IP licensing deals that maximize the company's value.

"An innovative licensing deal includes a combination of factors that go far beyond the basic elements of IP, such as purchase commitments, marketing and resell agreements, joint technology development, asset or business sales, leverage of executives and business relationships," says Beyers. "To combine these business assets into a single, highly valuable licensing deal requires a significant amount of business savvy and thinking out of the box, combined with a tight partnership with the legal function."

The ideal CIPO

In establishing the CIPO position, management should first ask, what the attributes of the ideal candidate are. The individual does not need to be an attorney, as shown by several companies who have chosen people with business education and experience. However, the ideal candidate needs a strong grounding in all areas of IP: patent, copyright, trade secret, and trade mark. Patent law expertise is perceived as highly relevant, and because this body of law is specialized and complex, many of today's CIPOs have come from the ranks of registered patent attorneys. Expertise in commercial litigation, antitrust, and contract law is a definite plus. Knowledge of licensing law and practice is essential as is a deep appreciation of the technology of the company's products and services.

Most of the current CIPOs, whether business people or attorneys, have technical backgrounds in the same technology as the company's products and services and have actively engaged in complex licensing. A strong business sense is also essential because the CIPO must be proactive and able to close opportunities to achieve optimized IP ROI. Outstanding people and presentational skills are required because of the diverse constituencies the CIPO will interact with both inside and outside the company.



Because the CIPO position usually requires reassigning certain responsibilities of the general counsel, it is critical that the general counsel be involved in the creation of the position and the selection of the CIPO. That involvement is important so that the general counsel can anticipate how best to support the CIPO. A perception that the general counsel does not fully support the CIPO could create a risk of failure by the first person in the job.

In terms of actual performance, CIPOs today may not have to specify performance metrics and goals because senior management and the board cannot define success and superior performance. The reason is that the CIPO position is new and there is no body of performance data against which to measure it. Compensation experts do not know how to judge performance. In some cases the CIPO position has created compensation issues because the expert recruited from outside the company had a higher salary than corresponding positions in the new company. But because there is such a small pool of specialists for CIPO positions, companies are forced to pay what it takes to recruit the talent they need to make the CIPO position work.

There is no consistency in the reporting structure of the CIPO. It seems to depend on the company's reporting organization and the complexity and diversity of its business model. In some companies, especially those with a narrower market focus, the CIPO is on a par with the chief financial officer, to whom the general counsel may report. In other companies, particularly those with more complex and diverse business models, the CIPO reports to the chief technology officer or to a business position, such as the senior vice-president of licensing, and more traditionally to the general counsel. Only a few CIPO positions report directly to the chief financial officer or the general counsel. The

thinking is that the CIPO needs an executive level position to have high level access to all areas of the company to achieve the goal of optimizing IP ROI. In many companies the CIPO has direct access to the chief executive officer, and to the board.

The CIPO structure

The CIPO needs substantial resources to achieve the goal of optimizing IP ROI. Resources equate to money and people. It is critical that the company is not parsimonious with the CIPO; failure to provide the needed ample resources is likely to be fatal to the effort. Additionally, if the company provides these substantial resources through the general counsel and not directly to the CIPO, it is critical the general counsel in turn provide these resources to the CIPO. To emphasize this point, one specialist equated a portfolio without necessary resources to the oft-used phrase "all hat, no cattle".

In terms of assessing the power of the CIPO to achieve desired IP goals, another expert suggested "follow the money". In other words, if the CIPO has control over the money and people needed to achieve these IP goals, the chances of success are greatly increased. This control issue focuses on the structure of the organization and the reporting relationships of the needed people. It also focuses on the availability of resources and people outside the company and who selects and controls them.

Best practices experts argue against separate, parallel organizations that provide similar internal services within the company. The question arises whether the CIPO should be allowed to build an IP organization that parallels the IP organization found in the general counsel's office or in the operating units. The answer seems clear from the organizations assessed that parallel IP organizations should not be allowed.

Traditionally there are two models used for the IP functions in a company. The first is the centralized model, which is the dominant one. Under the centralized model, all of the IP functions are concentrated in the general counsel's office, and the staff performing these functions report to the general counsel. This staff receives their performance reviews and promotions from the general counsel. In companies where the general counsel is powerful, such a model is perceived by the rank-and-file IP professionals as a plus. Conversely, if the general counsel is weak or out of favour with senior management or the board, this model is perceived as a minus.

The other model is to split the IP functions between the general counsel's office and the operating units. This model is often used by companies with broad and complex structures composed of many disparate operating units, some of which may have been acquired. This model reflects the power of the operating units whose senior executives want their captive IP attorneys. These executives do not want to go to headquarters to obtain their IP services, and often demand IP attorneys physically reside at their sites and be reviewed by them.

Any effort to simply drop a CIPO position into one of these models poses practical problems for the CIPO. In each, the CIPO does not control the IP professionals because they do not report to him or her nor are they reviewed by the CIPO. In reality, the CIPO is merely an IP strategist without the team needed to achieve the IP goals. For this reason, experts believe that such a corporate structure will doom the CIPO to failure. However, in a large complex organization with a broad business model and many operating units, such a structure be the only practical one for the CIPO. History will show if this model is viable.

The more effective model is for the CIPO to have his or her own IP organization with shared responsibility between the CIPO's organization and any IP staff that remains in the general counsel's office or other operating units. This assessment is based on feedback regarding CIPOs who are perceived to be effective and the organizational structures they enjoy.

To understand the separate CIPO organization approach, a careful assessment is needed of the division of responsibility between the CIPO organization, the general counsel office and any other IP organizations in the company. What follows is a best practices assessment based on known examples.

The perfect system

A primary CIPO responsibility is the creation and maintenance of the worldwide patent portfolio. This is best handled by patent attorneys, agents and technical specialists within the CIPO's organization. The copyright, trade mark and trade secret work is also handled by the CIPO's organization and not the general counsel's office. Some companies outsource original application drafting and/or prosecution work to outside law firms or agents as a way to keep head count down and have an easily controlled staffing buffer.

However, according to Todd Dickinson, corporate vice-president and chief IP counsel for GE, their trend is to move towards greater insourcing of patent preparation and prosecution. "Our goal is to better manage the balance between quality and cost and in that effort we need a variety of options," says Dickinson. "For example, we are insourcing our most strategic cases and seeking an optimal ratio between outsourcing and insourcing which we presently think will be around 50%." There is also a trend in some companies with large numbers of US filings to set up operations in India to prepare

the original US application. The jury is still out on whether that approach will be effective and cost-justified. Says Dickinson: "The GE experience has been generally positive using our captive India operation."

Patent investigations are handled by the CIPO's staff. These include novelty studies, freedom to operate and right to use investigations, and monitoring patents of competitors. Benchmarking industry patent trends are also performed. These functions are central to the IP function both defensively and offensively and thus need to be owned by the CIPO staff.

In most companies responsibility for licensing is coveted because it is important to management and is professionally rewarding. Conventional inbound and outbound licensing should probably continue to reside with licensing specialists in the general counsel's office. It is best not to allow the general business attorneys, who often are captive to operating units, to usurp this work. Effective licensing requires a specialist spending the bulk of its professional time doing this activity.

The CIPO's organization, on the other hand, handles licensing programmes for technology communities which often exist in companies that are engaged in joint development with multiple third parties. This is effectively an in-house version of an industry standards organization. Additionally, the CIPO's organization handles the licensing for company research organizations, and has a standards group that deals with the IP issues of industry standards and open source. Field support IP issues are also handled by the CIPO's organization.

Pure IP litigation is handled by the CIPO's organization with the help of outside litigators chosen by the CIPO's organization and not by the general counsel. The general counsel's office handles non-IP litigation in a similar fashion. Where IP and non-IP issues overlap, the CIPO's organization takes the lead whenever the IP issues predominate. In overlap situations, which can arise in many types of suits, there must be close cooperation between the litigation managers in the CIPO's organization and the general counsel's office.

An emerging trend is to involve the CIPO in the company's mergers and acquisitions strategy as early as possible, as opposed to the prevailing model of relegating IP analysis to the end of the deal. Thus, the focus has been on IP only as a risk factor and not as a value driver. As stated by Ron Laurie, a trailblazer in creating the IP investment banking model embodied by his company InflexionPoint Strategy: "In a knowledge-based economy, where corporate value is largely based on intangible assets, the CIPO should be involved in formulating the company's overall growth strategy and at the earliest stages of structuring and negotiating an acquisition or divestiture. Now, the more forward looking companies will involve the CIPO in both target selection and deal valuation." Todd Dickinson adds: "GE has recently created such a position, and we anticipate that it will help us be much more strategic in our business development opportunities."

Another way to characterize the best practices overall CIPO model is stated by Peter N Detkin, a managing director of Intellectual Ventures, and formerly vice-president and assistant general counsel in charge of IP at Intel, as follows:

The best model is analogous to the state/federal system. Issues that affect the company as a whole, such as setting principles for participation in standards bodies, litigations involving multiple business units or corporate-wide property rights, or licensing policies and issues involving the

entire company's portfolio should be handled by the CIPO's office. Issues that are specific to an individual business unit, such as litigation or licence dispute, or whether a particular standard body should be joined, should be handled by the general counsel office within parameters negotiated and agreed to by the CIPO's office. For example, together the offices will agree on a range of acceptable terms for a licence or for standard body participation, leaving it to the business unit attorneys to negotiate any particular licence. If the negotiation goes outside that range then it is incumbent on the business unit attorney to go back to the CIPO's office for additional authorization, as a decision to go outside the bounds on one negotiation will have an effect on future negotiations in different business units.

For this model to work, there must be a high degree of trust and support between the CIPO's organization and the general counsel's office. Both organizations need to believe it is in their best interests as well as those of the organization to support this structure as the best way to optimize the IP ROI. Senior management and the board need to recognize and reward such cooperative behaviour and penalize friction.

Companies making the transition to this CIPO model frequently have a more conventional structure driven by established traditions and personal fiefdoms. For example, many conventional structures have the licensing done by business attorneys captive to business units, IP litigation handled by a litigation department in the general counsel's office, and patent portfolios handled by a disparate group of attorneys and agents scattered across the company. In dealing with this structure, companies may be tempted to use a matrix

reporting structure that sounds good in principal but is ineffective, if not a failure, in practice. Best practices requires radical restructuring of the IP functions in the company for the CIPO to be as effective as possible.

The CIPO must provide regular IP reports to senior management and the board. These reports must be developed with input from the general counsel and other stakeholders such as the CTO, director of research, vice-president of engineering, and vice-president of business development. Benchmarking with respect to competitors should be done. Industry trends need to be addressed. And finally, tangible results of IP asset management success need to be reported.

The CIPO position is here to stay in technology companies that need to be competitive in our global marketplace. A company that does not optimize its IP ROI is losing money for its stakeholders and is less competitive in the long run. Often IP – not the hard assets – is the most important asset in a technology company. The highly effective general counsel becomes the champion for the creation of the CIPO position in a company that does not have one, and the facilitator and ready service provider to the CIPO when the position exists. It is in the best interests of the general counsel to be the trusted collaborator and colleague of the CIPO to ensure optimized IP ROI success.



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