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INTELLECTUAL PROPERTY ASSET MANAGEMENT: A NEW DIMENSION FOR BUSINESS LEADERSHIP

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As we move rapidly toward a knowledge society, intellectual property (used interchangeably hereinafter with "IP") is becoming the primary differentiating factor between companies (Drucker, 1992). In the knowledge society, the means for production becomes intellectual property which is held within each individual employee within a company, along with a well thought out strategy for managing a company's IP. Leadership is required to ensure that this IP intellectual property is fully utilized by the company through an effective strategy. Leadership has been defined as the ability of an individual to use influence to produce an outcome (Bennis & Nanus, 1985; Burns, 1978). Pertaining to IP it is essential that all individuals in a company understand the outcomes desired and the influence and power tactics that promote and further an effective IP strategy. In this paper, we define the parameters of intellectual property and outline the importance of developing and implementing an effective IP asset management strategy as an essential component of organizational leadership.

Introduction

As we move rapidly toward a knowledge society, intellectual property (knowledge) is becoming the primary differentiating factor between companies (Drucker, 1992). In the knowledge society, the means for production becomes intellectual property which is held within each individual employee. Leadership is required to ensure that this intellectual property remains within the organization rather than being dispersed to the surrounding environment without appropriate revenue generating or cost avoidance mechanisms and safeguards. Leadership has been defined as the ability of an individual to use influence to produce an outcome (Bennis & Nanus, 1985; Burns, 1978). In the issue of intellectual property, it is essential that individuals understand the outcome desired that and influence and power tactics that protect these essential assets. In this paper, we define the parameters of intellectual property and outline the importance of considering intellectual property asset management as an essential component of organizational leadership. The first section will deal with the definition and parameters of intellectually property, while in the second section, we will set forth the prerequisites of leadership. In conclusion, we will consolidate both themes into a concise postulation that intellectual property asset management is a new dimension of leadership.

Intellectual Property

Intellectual property includes those endeavors of inventors and creative artisans which result in a legally enforceable property right. The legality of the rights for

most forms of intellectual property in the United States is provided for by the United States Constitution in article I, section 8. The working rules and regulations of the requirements and grants of rights for most forms of intellectual property as guaranteed by the constitution are codified in the United States code (USC). Titles 35, 15, and 17 respectively, of USC, set forth the laws pertaining to patents, trademarks and copyrights. Internationally, the World Intellectual Property Organization (WIPO) has promulgated the generally accepted body of law pertaining to intellectual property from an international perspective. Intellectual property is generally classified into three broad categories: patents, copyrights, and trademarks (including trade secret and trade dress protections). We will examine each of these.

Patents

Patents are a property right granted by the government to an inventor to exploit their invention for a specified period of time. The right conferred by the patent grant is, in the language of the statute and of the grant itself, "the right to exclude others from making, using, offering for sale, or selling" the invention in the United States or "importing" the invention into the United States (35 USC § 154). What is granted is not the right to make, use, offer for sale, sell or import, but the right to exclude others from making, using, offering for sale, selling or importing the invention. Patents are granted by the United States Patent and Trademark Office (USPTO or PTO). For an invention to be patentable, it must be (1) novel (35 USC § 102), (2) unique (35 USC § 103), and (3) useful (35 USC § 101). There are three types of patents: utility, (35 USC §§

100, 101), design (35 USC §171), and plant (35 USC §161). Utility and plant patents have duration of 20 years, while design patents are for 14 years (35 USC § 173). When a patent is used without the patent holder's permission it is said to be infringed on. There are civil penalties for infringing upon a patent, including monetary damages, reasonable royalties and attorney's fees.

Copyrights

Title 17 of the United States Code provides this intangible property right to authors. Authors as defined by the US Code include authors of "original works of authorship," including literary, dramatic, musical, artistic, and certain other intellectual works (17 USC § 102). This protection is available to both published and unpublished works.(17 USC § 104) Section 106 of the 1976 Copyright Act generally gives the owner of copyright the exclusive right to do and to authorize others to do the following:

- To reproduce the work in copies or phonorecords;
- To prepare derivative works based upon the work;
- To distribute copies or phonorecords of the work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
- To perform the work publicly, in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works;
- To display the copyrighted work publicly, in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work; and
- In the case of sound recordings, to perform the work publicly by means of a digital audio transmission. (17 USC § 106, 1976).

Copyright is automatic as soon as the expression of the author is fixed in a tangible form (17 USC § 102, 1976). In order to be awarded damages for infringement, however, the copyright must be registered with the United States Copyright Office, which is under the auspices of the Library of Congress. The duration of copyright for individual authors (or a group of authors) is the life of the author plus 70 years; in the case of publishers, copyright is 95 years after the date of publication or 120 years after creation. Infringing on a copyright can be costly and criminal. The copyright holder or his assignee can be awarded actual damages,

the profits received by the infringer or statutory damages of not less than \$500 and not more than \$20,000 (\$150,000 if infringement is willful) and costs and attorney's fees in all cases. Many infringers are also subject to criminal penalties depending upon the nature and type of infringement (17 USC §§ 501-513, 1976).

Trademarks

A trademark (™) is any unique or distinctive word, name, symbol or device or combination thereof that an entity affixed to goods or utilizes to identify its service that distinguish such goods of service from those of others in the marketplace. Such marks must be sufficiently distinctive or have acquired a secondary meaning in order to qualify for trademark protection. This would include marks that are fanciful, arbitrary or suggestive, i.e. Xerox; or marks which have acquired a secondary meaning, i.e. London Fog. Service marks ^(SM) are marks designed to distinguish a service in the marketplace.

Included under the heading of trademarks are the areas of trade dress and trade secret. Trade dress refers to a distinctive way of packaging or displaying a product, i.e., Starbuck's menu. The PTO office administers federal trademarks; however, trademark holders can and should register with the appropriate office in their respective state. Federal registration can be obtained if the mark is being used or if an applicant intends to use the mark within 6 months (this period can be extended to three years under certain circumstances) (15 USC § 1051). Although a federally registered trademark can be perpetual as long as it is in use, federal registration should be renewed between the fifth and sixth years and thereafter, every ten years. The owner of a trademark as the right to exclusively use the mark and prevent others from using it, however, the owner can license or sell the mark to whomever they please. Trade secret protection is given to any information (including formulae, patterns, programs, devices, techniques and processes) that a business entity possesses that gives it a competitive advantage over competitors which remains secret, except to those who have a need to know and such information is not readily ascertainable by the general public.

In the next section, we briefly outline leadership to put the leadership of intellectual property asset management into appropriate context.

Leadership and Intellectual Property Asset Management

In much of the organizational literature, leadership is defined as the ability to obtain an outcome from followers using influence, including power (Bennis &

Nanus, 1985; Burns, 1978). There has been some argument over whether leadership and management are the same behavior (Mintzberg, 2000; Zaleznik, 1977), but it is clear that there is a necessity for some leadership skills in management to allow for a vision, mission, and encouragement of others to participate (Bass, 1985; Bass, Avolio, & Goodheim, 1987; Drucker, 1973; Kuhnert & Lewis, P, 1987; Organ & Bateman, 1991).

In the case of assets, a skilled leader is responsible for resource allocation and control. As defined within the concept of power (Pfeffer, 1981), those with resource allocation are those with formal, hierarchical power in an organization. Therefore, in order to successfully utilize the intellectual property assets contained within the company, whether formal or informal, the leader must ensure that organizational members are cognizant of the need for the asset and are aware of the boundaries within which they operate. These two functions are difficult to achieve, particularly within larger organizations.

Organizational leaders and managers often are not aware that they create value for an asset or behavior within organizations based on what they pay attention to (Kerr, 1975). If leaders focus on a particular asset, it becomes an important asset within the organization, whether or not it is functionally important. This is true of intellectual property assets as well as others. In the same way, assets that leaders disregard become disregarded by the organization, regardless of whether they are or might be functionally important to the core competencies of the organization.

This makes the decision of which assets to value a key part of organizational leadership. If the assets that are seen to have value are found to be worthless over the long run, it is obvious that the effectiveness of the organization suffers, as does the leader's credibility. Those leaders able to perceive benefits over the long run, rather than the short, will be able to encourage the acquisition, transfer, and creation of valuable knowledge, including intellectual property.

Protecting intellectual property assets is difficult. A great deal of the intellectual property that a company uses to pursue its goals and objectives is located within each employee. Organizational members have functional knowledge of operations, processes, procedures, and customers that is, in itself, intellectual property. Leaders are essential in identifying and reinforcing the idea of which intellectual property assets employees should create, acquire, transfer, and use.

When employees leave, the knowledge contained within them is lost to the organization. This was made clear on 11 September 2001, when enormous amounts of knowledge were lost to the fire and from the deaths resulting from the terrorist act. Organizational members have access to the more formal forms of intellectual property, such as the patents that an organization has created or purchased for use. Misuse of these patents can be costly in time and money. There is a further need for asset management of IP: when employees become disgruntled or dissatisfied, one outcome can be the theft of the more formal intellectual property.

Figure 1: Patents Issued (FY 1984-FY 2004)

Year	Utility	Design	Plant	Reissue	Total
1984	66,753	4,935	174	287	72,149
1985	69,667	5,058	277	300	75,302
1986	71,301	5,202	227	263	76,993
1987	82,141	6,158	240	254	88,793
1988	77,317	5,740	283	244	83,584
1989	95,831	5,844	728	309	102,712
1990	88,974	7,176	295	282	96,727
1991	91,822	9,386	318	334	101,860
1992	99,405	9,612	336	375	109,728
1993	96,676	9,946	408	302	107,332
1994	101,270	11,138	513	347	113,268
1995	101,895	11,662	390	294	114,241
1996	104,900	11,346	338	291	116,875
1997	111,979	10,331	400	267	122,977
1998	139,298	14,420	577	284	154,579
1999	142,856	15,480	437	393	159,166
2000	164,490	16,719	453	561	182,223
2001	169,576	17,179	563	504	187,822
2002	160,843	15,096	912	466	177,317
2003	171,500	16,525	1,178	394	189,597

Notes: 1. Includes chemical, electrical, and mechanical applications.

Source: United States Patent and Trademark Office

Figure 2: Trademark Applications Filed for Registration and Renewal and Trademark Affidavits Filed (FY 1984 – FY 2004)

Year	For Registration	For Renewal	Section 8 Affidavit	Sec. 12 Affidavit
1984	61,480	5,926	13,519	5
1985	64,677	5,275	8,823	29
1986	69,253	5,660	8,519	19
1987	70,002	5,871	16,644	34
1988	76,813	6,763	18,316	23
1989	83,169	6,127	17,986	104
1990	127,294	6,602	20,636	5
1991	120,365	5,634	25,763	1
1992	125,237	6,355	20,982	25
1993	139,735	7,173	21,999	5
1994	155,376	7,004	20,850	4
1995	175,307	7,346	23,497	-
1996	200,640	7,543	22,169	6
1997	224,355	6,720	20,781	2
1998	232,384	7,413	33,231	-
1999	295,165	7,944	33,104	-
2000	375,428	24,435	28,920	-
2001	296,388	24,174	33,547	4
2002	258,873	34,325	39,484	-
2003	267,218	35,210	43,151	1
2004	298,489	32,352	41,157	9

Source: United States Patent and Trademark Office

Discussion and Implications of Intellectual Property Asset Management Leadership

Intellectual property has become a large part of the global economy. Figures 1 and 2 provide clear indicators that many US company's are now patenting and/or trade marking crucial IP assets. The large increase in patents and trademarks being granted in most recent years is generally said to be largely due to large and medium sized business enterprises trying to capitalize and exploit IP assets for additional sources of revenue.

Companies that control significant and strategic IP assets have great economic power, unlike companies who had power in the past by controlling key tangible assets (Hildebrandt, et.al., 2003). As we indicated above, the area of IP asset management is often overlooked by CEO's and other executives in business today. Microsoft chairman Bill Gates wrote to Chief Executive Magazine stating "It (intellectual property) is no longer simply the legal department's problem. CEO's must now be able to formulate strategies that capitalize on and maximize the value of their company's intellectual property assets to drive growth, innovation and cooperative relationships with other companies". (Chief Executive Magazine, November 2004 Issue 203).

Indeed, failure by executive leadership of a company to effectively implement and monitor a successful IP asset management strategy can be costly. For example, in the patent infringement suit of Purdue Pharma v. Endo Pharmaceuticals, a competitor of the Stanford, Connecticut based Purdue Pharma, Endo

Pharmaceuticals, wanted to develop and manufacture a generic equivalent to Purdue's successful pain medication, OxyContin®. Purdue filed suit against Endo, alleging that the defendant, was infringing upon Purdue's patents. At trial the judge ruled that Purdue's patents were invalid because the original patent claims relied upon by Purdue were misleading, and therefore, in the words of the court: "For the reasons set forth above...but Endo has proven by clear and convincing evidence that those patents are invalid due to Purdue's inequitable conduct before the PTO during the prosecution of the patents in suit. The patent claims against Endo are dismissed, patents 549,912,5,508,042 and 5,656,295 are declared invalid and Purdue is enjoined from enforcing those patents" (Purdue Pharma L.P. vs. Endo Pharmaceuticals Inc., 410 F. 3d 690, 2005.)

On June 7, 2005, the US Court of Appeals upheld the decision reached by the trial court. This will have far reaching implications for Purdue. According to reports, (Chief Executive Magazine, November 2004 Issue 203), the drug OxyContin® represents 70% of Purdue's annual \$1.8 Billion in annual revenues. This verdict will have an effect on Purdue's insurance rates, as a key example, as most insurance companies require certified financial statements as a part of the application process.

Another area of concern as a result of the verdict might be lawsuits alleging a breach of fiduciary duty on the part of executives who managed this privately held company and under whose span of control the patent prosecution was done. For other companies, failure to

develop a successful IP asset management strategy could mean being in the midst of noncompliance with the Sarbanes-Oxley Act (Sarbanes-Oxley Act of 2002) or SOX as it is commonly referred to. Most business experts agree that the implementation of SOX is predicted to be problematic in some fashion for publicly held companies, and those with out an effective IP asset management strategy, are probably at greater risk.

Successfully managing IP assets will also mean that CEO's operate from both a defensive and offensive posture. For example, most companies do not file useful patents and often rely upon cross licensing agreements, which are essential mutual nonaggression pacts with other companies (Chief Executive, November 2004). On the other hand, some companies use the tactic of filing patents and trademarks on everything, which can often result in underutilized or non practiced patents and abandoned trademarks, all of which are costly. Clearly, then a focused IP asset management approach is best. Table 1 enumerates some key issues to consider when beginning the process of developing an effective IP strategy.

Key Steps to Effective Intellectual Property Asset Management

1. Conduct a comprehensive review of IP assets
 - What IP does the company own? Identify patents, trademarks, copyrights or other IP assets which the company claims belong to the company.
2. Determine the scope of the company's rights in each IP asset identified
 - Is there clear documentation evidencing the company's rights in the IP? Documentation retention is important here. This is best reviewed individually for each asset claimed by the company.
3. Protect revenue crucial assets immediately if clear ownership or licensing cannot be established
 - For those assets which are crucial to the conduct of business or upon which significant portions of a company's revenue stream are derived from, a company should seriously consider pursuing all IP protection available for that particular asset (s), (i.e. numerous assets or some portion of a crucial asset, can be both trademarked and patented); often companies pursue only the most obvious IP protection. Obtaining IP specific insurance, for revenue critical IP assets for infringement claims against the company by a third party, is also a good practice.
4. Develop a comprehensive system for maximizing IP value
 - Developing a system that identifies all potential IP which the company develops or uses from third parties is crucial. This includes the usual patent and trademark rights along with adequately protecting trade secrets and other proprietary information from competitors in the company's marketplace. Additionally, the company should monitor and enforce their IP rights in the marketplace. Lastly, a company should in conjunction with counsel look at previously unthought-of of ideas to exploit the commercialization of their technologies and processes.

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