Many companies have come to realize that market value multiples associated with its intangible assets (patents, trade-marks, trade secrets, brandings, etc.) are often many times higher than the multiples associated with the cash flows generated from its tangible assets in isolation. The challenge facing these companies is to implement business practices and systems to manage and exploit these intellectual assets as traditional approaches to accounting, physical asset tracking and inventory systems are geared towards managing tangible assets. Most companies have not equally developed processes, organizations or systems to effectively manage and leverage intellectual assets, and opportunities are missed to realize the greatest possible value from them.

In this paper, we wish to:

- define “intellectual capital management” and review why many organizations do not utilize best practices in identifying or exploiting their intellectual capital;
- review possible management strategies and processes that could be utilized by COMPANY in developing and initiating the program; and
- highlight those areas where Norton Rose Canada LLP would be able to assist COMPANY with the program.

WHAT IS “INTELLECTUAL CAPITAL MANAGEMENT” AND WHY DO MANY ORGANIZATIONS FAIL TO EFFECTIVELY PRACTICE IT?

In this area, several terms are used interchangeably, and it is best if these are defined so that they may be distinguished:

- Human Capital – the people element of an organization. It includes owners, employees, contractors, suppliers and those who collectively bring to the organization their individual abilities (i.e. know how, experience, skills, creativity). Human capital is one of the two major elements comprising intellectual capital.

- Intellectual Assets – The tangible or physical description of specific knowledge to which an organization may assert ownership rights (i.e. documents, databases, processes, inventions, programs). Intellectual assets are the other major element comprising intellectual capital.

- Intellectual Property – the subset of intellectual assets for which legal protection has been obtained (i.e. patents, trade-marks, copyrights, trade secrets).

- Intellectual Capital – The collective elements of human capital and intellectual assets…the “knowledge” of an organization that can be converted into profit.

Intellectual capital management, then, is the processes and structures used to undertake the two activities of “value creation” and “value extraction” from any organization and, with the concepts above, could be generally conceived of as follows:
Historically, intellectual property ("IP") has been approached from three different perspectives – research and development ("R&D"), legal and business. Because of the legal complexities, IP has largely been the purview of legal counsel, where focus is typically on legal registrations of patents and trademarks and providing support to R&D or business units. R&D departments generally measure IP performance by the number of inventions and by product support and enhancement. Business units are required to deliver products and services to the marketplace, and license non-core technologies to external players. In many organizations, these units operate in relative isolation, seeking input from other units (i.e. legal) only when the need has been identified. Often, the strategic management of IP, let alone intellectual capital, is not the responsibility of any particular person or group. Many companies are, therefore, typically reactive, and many opportunities are lost. Organizations that operate in this fashion are characterized by:

- discreet, stand alone solutions for each major functional need;
- redundant and unsynchronized data across systems;
- inability to obtain a real-time view of all issues surrounding intellectual assets, their protection or exploitation;
- lack of user friendly tools to assist this function.

To further conceptualize where many organizations are in managing their intellectual capital as opposed to where they ideally should be, the following graphic is useful:
Organizations must start the management of their intellectual capital at the lower left corner of this figure, and to move up the strategic continuum towards fully integrated intellectual capital management requires a commitment of resources and energy that many organizations are not prepared to undertake, often times because they do not consider themselves to be “knowledge” companies where the creation of intellectual property is core to their competitive advantage. However, it is our view that when an organization adopts some of the practices and procedures associated with capital management, it realizes that it both produces many more intellectual assets than it previously thought and that some of these assets have commercial potential or value to the company. More importantly, such firms begin to move toward the broader goal of general “knowledge management”, which addresses the collection, organization and effective and value added utilization of the accumulated “wisdom” of the firm to enhance its competitive position. Knowledge management involves related, but much deeper organizational philosophies and processes, and one writer has graphically illustrated the intersections of knowledge management and intellectual capital management as follows:

![Knowledge Management Diagram](image)

**OVERVIEW OF INTELLECTUAL CAPITAL MANAGEMENT PROGRAMS**

We have reviewed recent literature concerning knowledge management and, more specifically, intellectual property asset management. As a broad overview, this literature may be summarized as suggesting that COMPANY consider the following management approaches:

(a) formulate a strategic vision for the use of COMPANY’s intellectual capital;

(b) implement governance models aimed at encouraging the coordination of knowledge. For instance:

   (i) beginning with an IP audit, catalogue COMPANY’s existing intellectual resources by creating what is commonly known as a “knowledge map” and which is generally based on a structure which is geared toward COMPANY’s needs and strategic vision;

   (ii) implement policies favouring efficient knowledge creation, organization, structuring, mapping and storing;

   (iii) create communities of practice within the organization in order to facilitate the exchange and proliferation of large amounts of knowledge;

   (iv) encourage sustained learning and innovative thinking in order to discover new and creative ways to apply current knowledge; and

   (v) continuously evaluate new ideas and knowledge and determine appropriate protection and development to put them to best use for COMPANY;

(c) apply the benefits of knowledge coordination to streamline new product or service innovation processes;

(d) develop licensing, partnering and other business opportunity maximization programs based on efficient use of COMPANY’s marketable intellectual capital. For example,

   (i) set up contract management programs that ensure compliance and develop a knowledge base to favour COMPANY in future agreements;
(ii) implement tax minimization strategies;

(iii) establish programs designed to enhance COMPANY’s ability to identify, protect and correctly assert the organization’s IP and other knowledge-based rights through a legal compliance program; and

(e) use benchmarking or other accurate techniques to measure the performance of COMPANY’s intellectual capital management program and set realistic business growth objectives.

Each organization will, of course, develop a specific intellectual capital management program to meet its unique needs, constraints, resources and anticipated outcomes. We do not propose to offer to COMPANY a specific program by way of this memo; an impossible task without much further discussion. However, we do suggest that COMPANY consider the following particular mechanisms to initiate a program that will ultimately meet its goals:

(a) COMPANY should begin its intellectual capital management program by defining its scope and its strategic vision. Perhaps holding a retreat with key employees who are more directly connected with the core branches of intellectual capital development or other forms of knowledge within COMPANY would be most conducive to placing people in the new mindset of a managed approach to intellectual capital.

First, COMPANY should focus on formulating a strategic vision for its intellectual capital. Second, once the strategic vision is established, COMPANY should define the scope of its intellectual capital management program. The program will give COMPANY the specific direction it needs to formulate the implementing policies or directives which, to be effective, should embody the following objectives:

(i) to thoroughly understand the processes by which COMPANY creates, develops, acquires, perfects, maintains and uses IP or other types of knowledge. Information gathered in this respect will also serve as a tool to improve the efficiency and coordination of these processes;

(ii) to accurately map the process by which knowledge is shared within COMPANY, be it within or across business groups or subsidiaries. Documenting these information exchange patterns will allow COMPANY to determine the most effective means of sharing company knowledge at all levels;

(iii) to promote constant employee learning and awareness of COMPANY’s knowledge being created or otherwise used in their business groups in order to better document developments, innovations, solutions, as well as IP or knowledge infringements;

(iv) to continuously monitor knowledge bases in order to allow COMPANY to act quickly to enforce its knowledge-related rights, identify breaks or inefficiencies in the chain of reporting and learning, as well as to have up-to-date information in the knowledge base in order to best determine business strategies for each item of knowledge; and

(v) to consistently apply a legal compliance program aimed at maintaining and properly enforcing COMPANY’s proprietary rights in its knowledge and IP.

(b) More specifically, in detailing its intellectual capital management program, COMPANY will likely wish to incorporate the following elements which typically underlie such programs and which are aimed at maximizing the efficiency and the overall value derived therefrom:

(i) To the extent possible, strive to concentrate ownership and management of all COMPANY IP and most COMPANY knowledge in one (often the parent) company.

(ii) Conduct a periodic knowledge and IP audit. As an important part of an intellectual capital management program, an audit serves the purpose of confirming the accuracy of the knowledge base by taking a complete inventory of COMPANY’s knowledge and IP and ensuring that COMPANY is utilizing the Program to its full potential, with regard to knowledge creation, use and protection.
(iii) **COMPANY** would benefit from establishing a general procedure by which to measure the costs and benefits of protecting acquired knowledge in order to make investment decisions with respect to the type of protection to seek for innovative ideas or processes.

(iv) Reduce IP and knowledge protection costs by avoiding duplication of protection efforts within **COMPANY** and by dropping items which no longer warrant protection.

(v) Strongly encourage early disclosure of new ideas, IP or knowledge and to keep proper records showing the nature of the knowledge developed, and the development process.

(vi) Train employees to evaluate appropriate confidentiality levels as well as respective knowledge disclosure and protection methods applied to knowledge developed in their business groups.

(vii) Educate employees in effective use of the **COMPANY** knowledge base in order to streamline product innovation processes and shorten time-to-market for new ideas.

(viii) Implement continuing employee education and incentive programs as a further demonstration of **COMPANY**’s management leadership, control and direction and in order to increase employee morale by showing that the company values employee efforts to be creative, innovative and to participate in the building of **COMPANY**’s knowledge base. The **COMPANY** employee education and incentive plan should also teach employees to recognize IP and infringements thereof. Employees should know to report infringement incidents to the “legal compliance department”, whether they represent infringement by or against **COMPANY**

(ix) Of course, in order to maximize internal compliance with the program, **COMPANY** must ensure that it is consistently applied throughout the company and that it is consistent with company culture. In order to least encumber day-to-day operations of the company, the procedures prescribed by the program should be simple and applicable to every situation.

(c) The ramifications of the Program should flow down to the employee recruiting process, where **COMPANY** would not wish to hire individuals who may be restricted in their job or participation in the creation of the knowledge base by reason of any non-competition or non-disclosure agreements or obligations. Furthermore, employees should be required to enter into an employment agreement with **COMPANY** whereby they:

(i) assign all rights in IP, inventions, and other knowledge created by them, to **COMPANY**;

(ii) assume a duty of confidentiality to the company; and

(iii) agree to cooperate fully in protecting and building the company’s IP and other valuable knowledge.

(d) Finally, the Program should ultimately be geared toward business opportunity maximization for **COMPANY**’s entire knowledge base. Accordingly, it should set up a structured organization and chain of reporting. For instance, it may be beneficial to create positions or committees to further the objectives of the Program and concentrate on the achievement of objectives. For instance:

(i) a contract management committee could oversee agreements which may impact the **COMPANY** knowledge base in any way and develop key provisions which should be present in certain types of contracts in order to continue to protect and build the **COMPANY** knowledge base;

(ii) another committee may be charged with the exploration of cost-cutting in respect to IP and knowledge strategies, including the implementation of tax minimization procedures; and

(iii) in order to measure the performance of the Program, **COMPANY** should establish an evaluation committee which should not only grade **COMPANY**’s Program performance, but also measure the accuracy of its evaluation models and compare **COMPANY** results to those obtained in other companies with similar programs.
HOW CAN NORTON ROSE CANADA LLP HELP?

Norton Rose Canada LLP could assist COMPANY in the following areas:

(a) development of COMPANY’s intellectual capital management program’s strategic vision, goals, objectives and methods through participation in an initial retreat and through education at that retreat (perhaps in concert with external consulting support) concerning knowledge management generally and IP specifically;

(b) assist in the development of corporate policies and procedures supporting the program;

(c) ongoing period education programs to select business units or committees established to implement the program, including presentation from expertise throughout the Norton Rose Canada LLP organization (e.g., patent agents based in different offices) with no travel expense to COMPANY, as required;

(d) initiate IP protection programs including review of current employee/consultant retainer contracts, standard services agreements and applicable agreements with third parties and the co-ordination and registration of identified copyright, trade-mark or patentable assets;

(e) assist in the development of employee incentive and reward programs associated with the development and protection of COMPANY’s intellectual capital; and

(f) assist in considering “e-procurement” and “e-outsourcing” possibilities and methodologies, which have far-reaching implications in the way COMPANY may interact with its suppliers, subcontractors and customers.

Please feel free to contact Tony Morris at (403) 267-8187, if you would like to discuss these issues in further detail.