



# Auditing a company from an IP perspective

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## About the author



### **Donal O'Connell**

is the Managing Director of Chawton Innovation Services which offers consultancy in the areas of innovation and IP management. He is formerly a VP of R&D and a Director of IP at Nokia where he worked for 21 years and gained wide and varied experience in the wireless telecoms industry.

## Dear Reader

We are pleased that you are interested in our white paper. In the following, you will receive valuable insights on auditing a company from an IP perspective. These insights are intended to give you an idea how to identify the potential IP assets of your company or your client. You can deepen your knowledge of the topic with the training courses we offer on IP management.

Best regards,

A handwritten signature in black ink that reads "Alexandre Ho". The signature is written in a cursive, flowing style.

Jean-Claude ALEXANDRE HO  
LL.M., Maître en Droit  
Conference Manager Intellectual Property  
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## Definition of an audit:

An audit is the examination of a specific aspect of an organisation, ideally by someone independent of that organisation.

The purpose of an audit is to provide independent assurance that an organisation's management, governance and processes are operating effectively, and that any associated assets are being properly and professionally managed.

An audit is the process of gathering and discussing information from multiple and diverse sources in order to develop a deep understanding of the current situation.

An audit is also a systematic and independent examination of various documents of an organisation to ascertain how far any statements being made present a true and fair view of the reality. An audit is the process of checking that the way an organisation presents information about its position is true and fair.

## An IP audit:

According to WIPO, the World Intellectual Property Organization, an IP audit is defined as a systematic review of the IP assets owned, used or acquired by a business. Its purpose is to uncover under-utilized IP assets, to identify any threats to a company's bottom line, and to enable business planners to devise informed strategies that will maintain and improve the company's market position.

WIPO also states that an IP audit is a systematic review of the intellectual properties owned, used or acquired by a business so as to assess and manage risk, remedy problems and implement best practices in IP asset management.

Nowadays, an IP audit is an indispensable tool for successfully managing knowledge-driven business by aiding the process of creating or revising its IP strategy.

## Timing:

An IP audit make sense when...

- Someone new is given responsibility for IP within the organisation.
- There is a significant corporate event, such as an M&A deal, or significant stock purchase, which will have an impact on the ownership of IP.
- There is an assignment of interest in the IP, such as with the establishment of an IP Holding Company.
- A major IP license agreement is being put in place.
- An IP benchmarking exercise is being conducted.
- A due diligence exercise is taking place.
- The organisation is planning a major update of its IP strategy (as it is difficult to know where you are going if you don't know where you are).

I must admit that I am a fan of a company conducting regular IP audits, say once per year. If IP audits are conducted on a regular basis, then it is most important that the audit findings are kept for comparing and contrasting purposes.

### The recommended sections of a comprehensive IP audit:

Many IP audits focus very much on a detailed analysis of the IP assets or IP portfolio of the company. However, I suggest that any proper and professional audit should go well beyond this and at least include the following...

- IP awareness & education
- IP definition
- IP maturity & sophistication
- IP processes & systems
- The company's IP position relative to others in its eco system
- The IP models taken into use
- The IP portfolio of the company
- How IP adds value
- IP risk
- IP resourcing
- IP in the online world
- IP governance

I make the above suggestions based on my own experiences of conducting numerous IP audits over the past dozen or more years as well as from the many insightful inputs provided to me by a number of high calibre IP professionals I have had the privilege to learn from during that same time period.

I will now explore each of the sections listed above in a little more detail and hopefully explain the essence of each one.

### What is the level of awareness of IP within the organisation?

In this section of the audit, the focus is on IP education, trying to better understand what is being taught about IP and more importantly what is being learnt.

Education is the process of facilitating learning, or the acquisition of knowledge, skills, values, beliefs, and habits. Education can take place in formal or informal settings and any experience that has a formative effect on the way one thinks, feels, or acts may be considered educational.

## How is IP defined within the organisation?

In this section of the audit, the focus is on the definition of IP. It is a very broad subject, but what does it mean as far as the company is concerned, and what qualifies as 'good' IP and why?

Intellectual capital refers to the knowledge and know-how, skills, competencies and experiences of the people. It is the value that the employees of a business provide through the application of their skills, know-how and expertise.

Intellectual assets may be defined as including everything and anything documented either manually or automatically within a company or organisation. Business plans, meeting minutes, supplier lists, customer details, process descriptions, product specifications, test scripts, data (both raw and processed), etc. all fall into this important sub-category.

It is most important to realise that there are multiple regimes of intellectual property rights, such as patents, trademarks, designs, domain names, copyright and trade-secrets.

It is imperative that the organisation has a broad rather than a narrow definition of what qualifies as IP. Too many times, I see discussions about IP move far too quickly and focus in on one particular form of IP.

## What is the IP maturity or sophistication level of the company?

In this section of the audit, the focus is determining the level of IP maturity and sophistication of the company.

Companies and organizations differ in terms of their IP maturity and sophistication. Some are better than others. There is a league table in essence. Where is the company on that league table? How long have they been at that particular position and are they hoping or planning to move up the league table?

## What IP processes & systems has the company in use?

In this section of the audit, the focus is on IP processes & systems.

An IP process can be seen as an agreement to do certain things in a certain way and the larger your organisation, the greater the need for agreements on ways of working. Your IP processes are the memory of your organisation, and without them a lot of effort can be wasted and the same mistakes can be repeated.

Your IP processes define what and how tasks are done and by whom, to ensure repeatability. This is especially important as in-house IP functions collaborate more and more with external IP Agents, IP intermediaries and IP service providers, sometimes off-shore.

They also enable you to set performance criteria and measurement, which can be utilized when identifying the source or root-cause of any problems or excessive variation.

The section also examines how the company is embracing IP systems and tools to underpin their IP processes, and whether such systems and tools are adding value.

## Where is the company in relation to others in its eco-system?

In this section of the audit, the focus is on determining the position of the company relative to other entities in its sector, in terms of both IP value and IP risk.

A company's position will dictate to some degree how it plays the IP 'game' and how it interacts with others in its eco-system from an IP perspective.

## What level of control does the company have?

In this section of the audit, the focus is on determining the level of control the company has over the various IP models it embraces.

Such IP models may include open innovation, inter-operability standards, open source, leveraging technology platforms, working with a developer community, industry academia collaboration, outsourced R&D, IP licensing, tech transfer, IP commons initiatives, franchising, etc.

Some models are calm from an IP perspective with the company well in control of how the IP 'game' is to be played or rather the rules of the game from an IP perspective (e.g. definition, ownership, usage, etc.). Other models are much more turbulent from an IP perspective with the IP game defined by others with little or no chance to influence the rules of the game.

## The IP portfolio of the company:

In this section of the audit, the focus is on understand the IP portfolio of the company, its strengths and weaknesses as well as how this IP portfolio is being managed.

The IP portfolio will probably consists of a diverse range of IP assets but apart from the overall volume of IP assets, what else can we tell about these assets in terms of core vs context; age; geographical coverage; mapping to products / services; value add; risks; etc.

IP portfolio management is about aligning the portfolio to meet business objectives to ensure that the portfolio add value to the business, that they are regularly reviewed and that unnecessary costs are avoided.

## How does IP add value to the business?

In this section of the audit, we explore the ways and means in which IP adds value to the company as IP adds can add value in a variety of different ways.

IP may add value in terms of freedom to operate; product differentiation; generating revenue; proving some tax benefits, giving the company some cost advantage compared to competitors, providing some business influence; enabling a new technology; attracting investment, providing a positive image; clarifying ownership; etc.

Of course, the manner in which IP adds value to the business may change over time.

## IP risks and IP risk management:

In this section of the audit, we are trying to understand the IP related risks facing the company, and details on how these are being mitigated. We are also trying to understand the IP risk management process in place and if it is robust and fit for purpose.

Risk is the chance of something going wrong, and the danger that damage or loss will occur, whereas risk management is the process of analysing exposure to risk and determining how best to then handle such exposure. Risk mitigation means that you do something about it.

By its very nature, there are both rewards and risks associated with IP.

## IP resourcing:

In this section of the audit, we explore what IP resources the company has at its disposal, and how these are organised and structured.

It is important that both internal and external resources are included into this part of the assessment.

There is no 'one size fits all'.

## IP and the online world:

The Internet is revolutionising our society, our economy and our technological systems. No one knows for certain how far, or in what direction, the Internet will evolve. But no one should underestimate its importance.

The internet now underpins communication; research; education; financial transactions; the news and real-time updates across a range of topics; shopping; networking; entertainment; services; plus much more.

This online world is becoming more and more critical for many organisations and their business activities.

However, this online world is not an 'IP free zone'. IP issues have to be considered with just as much care and attention to detail as in the real world.

This section of the audit focuses on this online / virtual world, and explores how the company is handling IP in whatever part of this online world is relevant to the business.

## IP Governance:

In this section of the audit, we explore the issue of IP governance.

IP Governance is simply about defining the rules for this particular activity or function. It is the process of decision-making and the process by which decisions are implemented (or not implemented) within the IP function. Ideally the process should distinguish between strategic and tactical decisions.

Since governance is the process of decision-making and the process by which decisions are implemented, an analysis of the governance of any IP function should focus on the formal and informal

actors involved in decision-making and implementing the decisions made and the formal and informal structures that have been set in place to arrive at and implement the decision.

Good governance cultures are marked by consistency, responsibility, accountability, fairness, transparency, and effectiveness. And these same characteristics should apply to good governance within an IP function. Leadership of the IP function should focus on both performance and how that performance was achieved.

It is within this section of the audit that the IP strategy of the company is examined.

### Some additional comments about this IP audit:

I should stress that each of these sections briefly described above break down into much more detail. I should also add that there are multiple models and techniques available to help the auditor conduct each section of the assessment in a very structured and logical manner.

Although the order of the sections listed is not so important, I do like having IP awareness & education, and IP governance at the ends, like bookends keeping everything orderly.

### Final thoughts:

You typically get what you measure. It is therefore crucial that there are regular IP audits conducted.

Companies generally gain tremendous value by taking a proactive, systematic approach to assessing their IP in a comprehensive manner as described above.

A proper IP audit should involve the right people with business, technical and legal skills and competencies, knowledge and experience, given the unique nature of IP.

The findings of these regular IP audits should be reported to and discussed with senior management in the organization.

I expect further developments in the area of IP audits in the coming years with work underway to standardize IP auditing as well as to certify entities conducting IP audits in certain jurisdictions, e.g. in Germany.

I trust that you have found this short paper of interest and of value.



## You may also be interested in:

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