

Procurement

Where organisations have a high dependency on their subcontract chain, it is important to establish a contractual and working relationship in which intellectual property (IP) is managed to:

- ↗ Guard against the development of monopolies and dependencies that ultimately reduce competitive pressures and hence increase costs.
- ↗ Encourage and reward subcontractor innovation.
- ↗ Enable knowledge sharing, while maintaining clarity of rights and obligations.

The following are signs of a well managed procurement process:

- ↗ There is joined up decision making between the commercial, technical and delivery areas, with projects and functions giving early consideration to any intellectual property issues associated with contracts they will let.
- ↗ There is a clear strategy identifying the circumstances under which subcontractors will be allowed to retain the intellectual property they create.
- ↗ Subcontractors are incentivised to identify and cooperate in the transfer of developed intellectual property and any associated know-how.
- ↗ The procurement process gives early warning of contracts that will need specialist intellectual property input during their negotiation or drafting.
- ↗ There is a searchable database of the intellectual property rights and obligations created by contracts, which provide agreement owners with automated reminders of key events / dates.

Key Challenges When Setting the Contractual Framework Include :

- 1) Ownership and rights to arising intellectual property : Ceding ownership of, or rights to, the supply chain can encourage subcontractors to subsequently invest in and improve technology; however, it can also reduce competitive pressures and even enable subcontractors to compete with their customer. Organisations should therefore have a clear strategy, or decision making rationale, defining the circumstances under which intellectual property rights should be ceded. For example, when there is already a lack of competing suppliers within a given market sector, then new companies may be encouraged to enter the market if they are allowed to retain arising intellectual property.
- 2) Rights to background intellectual property : In general, a purchaser will require the ability to freely exploit the results of any work it has funded, and this implies securing greater or lesser rights to subcontractor background intellectual property. However, it may be inappropriate to insist on acquiring rights that are so extensive that the subcontractor is discouraged from offering innovations either within the submitted bid, or while working under a contract. The procurement strategy therefore needs to highlight instances where pursuing wider rights could create such disincentives.
- 3) Reporting intellectual property created by subcontractors : Contracts invariably require subcontractors to report arising intellectual property, but are the expectations clearly defined? Should the subcontractor merely report patentable inventions, or should all the problems encountered, and solutions developed, be identified? To minimise under-reporting should the subcontractor be required to provide confirmation that there is no

arising intellectual property if they believe this to be case? But note: regardless of the quality of the information provided by the subcontractor the submission will only be of value when it is clear who is responsible for its internal review and dissemination.

- 4) Innovation : Subcontractors must be financially incentivised to offer new technologies in the bidding process, and innovate during the performance of the contracts they have won. This clearly requires that risks and returns are carefully considered within any contract. It will also be necessary to ensure that any tender / bid evaluation criteria allow subcontractors to be selected based on; their ability to innovate, their past performance in sharing knowledge, and their track record of providing notification of arising intellectual property.

Giving Early Consideration of the Relationship to be Struck with the Subcontract Chain : To ensure an Invitation to Tender is prepared against a clear contracting strategy, project approval processes should require that projects give early consideration to the relationship they will seek to establish with any subcontractors. In addition to enabling early discussion of the four issues discussed above, this will help ensure that:

- ~ Any knowledge or information transfer from the subcontract chain is anticipated and highlighted in the contract strategy.
- ~ Subcontractors are involved at the correct point in the project life-cycle, i.e. are they to be used for optioneering, developing an outline design, carrying out detailed design, or just building to a detailed design?
- ~ All circumstances under which rights might be required to background intellectual property are highlighted, e.g. the right to access and use drawings necessary to make repairs or alterations to equipment purchased.

These are just elements of a robust, "IP friendly", procurement process, as shown in the adjacent figure.

Knowledge Management Initiatives : Knowledge management tools and processes can be used to extract maximum value from the subcontract chain. For example:

- ~ Should there be knowledge sharing events held with the subcontract chain? These can be used to highlight problems and solutions, not only between the purchaser and subcontractors, but also between subcontractors.
- ~ Should there be project-specific virtual environments, such as e-rooms, to enable more effective collaboration with subcontractors?
- ~ Is there merit in the creation of a suggestion scheme accessible by subcontractors?

Such initiatives clearly create intellectual property issues, but these challenges may be worth facing if they help establish a more technically innovative subcontract chain.

