

# Intellectual Property in Mergers & Acquisitions



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## INTRODUCTION

The importance of intangible assets, primarily in the form of intellectual property (IP) and intellectual property rights (IPRs), is increasing in the business world and firms should manage their IP and IPRs appropriately in order to optimize the value of their assets. Mergers and acquisitions (M&A) can increase the economic value of a firm by the obtainment of unique intangible assets. IP involves a variety of intellectual assets of a firm, and IPRs, which protect IP as a right, involve a variety of different rights such as patents, trademarks and copyrights. IP and IPR management involves a variety of actions, including simply protecting and enforcing IP. Nowadays, firms consider their IP Management Departments to be one of the key departments and organize them accordingly. M&A are not instantaneous events but rather include various processes, and the IP Management Department is necessarily involved in M&A.

This paper explores and intends to clarify the steps involved in IP management process during M&A from the practical viewpoint of the IP Management Department. Interviews were conducted with industry experts in IP management. A framework for integrated IP management by the IP Management Department is proposed and finally, a discussion of the interpretive process is provided to pave the way for further research.

## BACKGROUND

M&A strategies and management have been discussed as a theme of M&A studies. The area of M&A management includes the process of pre-

acquisition management and post-deal integration, the human side of M&A activity, the cultural issues at stage, knowledge related perspectives, or advertising/marketing or media perspectives to M&A (Cartwright, Teerikangas, Rouzies, & Wilson-E, 2012). M&A include various processes including due diligence, in which IP or IPR is involved. M&A performance has been evaluated by different measures including patent data (Meglio & Risberg, 2011; Stiebale, 2010; Bertrand, 2009; Lee, Lee, & Wu, 2011; Ida, Sumikura, & Nagata, 2009). It has been suggested that IPR issues should be connected to performance and success measures (Candelin-P., Sandberg, & Mylly, 2012). Patents are a part of IP and are essential for manufacturing firms. Many researchers use patent data in their evaluation of M&A performances (Takashima, Nakamura, Nagaoka, & Honjo, 2009; Ornaghi, 2009; Valentini, 2012; Onishi & Nagata, 2010; Shimanuki & Saiki, 2012). Their discussions do not include a discussion relating to IP or IPR management itself.

The management of IP includes a) assessing, measuring and auditing IP portfolios; b) the valuation of IP; and c) the managing of IP assets in a manner that involves more than just protecting and enforcing IP (Hanel, 2006; Xu, 2009). The IP Management Department of a firm is responsible for both the internal management of IP, such as patent applications, confidentiality and IP awareness; and the external management of IP, including patent licensing and litigation (Pitkethly, 2001). Large-scale manufacturers generally have an IP Management Department. The IP Management Department of a firm is necessarily involved in the processes of due diligence and integration during M&A. Discussions about the role of an IP Man-

agement Department during M&A are reported to be necessary with regard to IP management in M&A (National Center for Industrial Property Information and Training, 2009).

Previous papers have discussed the M&A process but their discussions are not from the practical viewpoint of the IP Management Department. It has been reported that the comprehensive purpose of M&A is deemed to be the improvement of firm value and, more specifically, this can include a) seeking scale merit by an enlargement of share or scale, b) creating a way to enter a new field of business, or c) the enlargement of the scope under a firm's control by vertical integration. The purposes of M&A are mainly grouped into the following three categories (The Third Sub-committee of the Second Intellectual Property Management Committee, 2011):

1. Enlargement of scale (merger).
2. Obtaining technologies (without movement of personnel).
3. Obtaining new business (including personnel or equipment).

From the IP Management Department's viewpoint, these purposes are mainly grouped into four categories (Saiki & Shimanuki, 2012):

1. Enlargement of scale.
2. Strengthening of the business field, which includes obtaining technologies or IP.
3. Obtaining new business.
4. Complex or unknown purposes.

Even though there are M&A cases where the obtainment of IP assets is the main purpose, this has not been discussed with regard to the IP management process during M&A from the practical viewpoint. The process of M&A advances from the planning of the M&A strategy, as the first step, to integration in the end. In general, the process includes the following seven steps:

1. Planning of M&A strategy.
2. Screening of target firms.
3. Basic mutual agreement.
4. Due diligence.
5. Final mutual agreement.
6. Arrangement before integration.
7. Integration.

IP is one of the major factors for determining the value of a target firm in M&A. IP management including evaluation of IP is involved in Steps 1) and 2), above. IP is highly involved in Step 4), due diligence, and in Step 7), the IP-integration-project process of M&A (The First Sub-committee of the Second Intellectual Property Management Committee, 2009; Farhadi & Tovstiga, 2010).

Farhadi and Tovstiga discussed the IP management process in M&A as occurring in three phases: the preliminary phase, the transaction phase, and the integration phase. In the preliminary phase, the IP strategy and IP due diligence are included. The transaction phase includes IP risk management and the early stage of integration planning. The integration phase includes the late stage of integration planning and IP integration. They proposed a roadmap framework for an integrated IP management approach in M&A, which consists of four phases (Farhadi & Tovstiga, 2010):

- **IP Strategy Phase:** Identify strategic growth options provided on the basis of IP.
- **IP Due Diligence:** Clearly understand the scope and nature of the IP in question. The objective of IP due diligence is to collect information on the target's IP assets and identify risks.
- **IP Risk Management and Integration Planning:** Target the risks and weaknesses identified in the previous phase, and address the challenges arising from integration and measures regarding the transfer of IP assets. The major integration activities should be identified and planned.

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