Session D: Intellectual Property and Conflict of Interest

Date: Friday, October 26th 2001
1:45—3:00 pm

Session Leaders: Jon Sandelin, Office of Technology Licensing, Stanford University

Notes:

Summary of Key Points

- The degree to which universities should be involved in technology transfer may depend on the mission and whether the university is private or public. Federal grant guidelines may influence this as well.

- There are creative mechanisms available for universities to pursue commercially oriented development of intellectual property that can avoid conflict of interest concerns.

- Conflict of interest is no longer feared. The concern is how conflict of interest can be managed.

- The concern over conflict of interest may be based on past experiences or it may be imagined in anticipation of issues that have not ever arisen. In either case, the appearance of conflict of interest is equally as important as perception is reality.

- There are two different types of conflict of interest:
  1. **Conflicts in Maintaining Fair Relations with Partners and Suppliers** - Relationships with companies that do business with the university that might lead to perceived favoritism among other companies and partners with which the university does business
  2. **Conflicts in Delivery Unbiased Education** - Relationships or interest in supporting and/or investing in ideas or companies that might be perceived to be in conflict with the goal of providing an unbiased education

Intellectual Property (IP): 4 key areas and preliminary definitions

1. Patent = invention disclose in exchange for right to prevent others from use
2. Copyright = protects the expression of an idea
3. Trademark = distinguishes goods or services over competitors
4. Trade secret = protected know-how

How is IP created?

- Create it yourself
- Pay others to create it
- Buy it
- Trade it

IP can be helpful in raising money and improving investor security. It can help you attract useful partners and earn income. IBM earns $1.7 billion a year from their IP portfolio.
Managing IP Donations
Several corporations such as GE, BP, and Lucent have donated IP to the university. This is another way to earn value from IP side as a tax deduction. Companies assign patent rights to the universities. However, we are realizing that it costs money to mine that IP and turn it into to real value. So, sometimes, they will also provide money for development. These may be orphaned patents or just IP that they think universities will do a better job of developing. This is a goldmine to a company for hidden assets with locked up value. In some cases, you can have a company donate a technology we have expertise in and we if we can use it as a base for research, we can get students working on it and get funding. We will not accept technology to develop further unless it can be tied to a faculty group or research.

The Costs of IP
Preexisting IP investigations can be expensive. The costs of filing for IP rights can be significant especially if filing patents overseas. Patent litigation is the most expensive litigation there is. The costs of IP rights can include: patent rights, litigation costs, licensing costs and can be a significant burden to young company. This is where a university has to think about whether to invest in a startup or a large well established company.

The Development of IP and the Role of Technology Licensing Offices
What is the university’s purpose for developing IP? It should be to benefit the public, not for making money. In the case of Stanford, it was ten years before the Office of Technology Licensing (OTL) broke even. It is a rare university that understands what to do with IP. Translating IP into an investment is not easy or simple. The majority of technology licensing offices is not making a profit or a major return. OTL offices operate more like venture capital firms – we evaluate opportunities to invest in and have some big winners, but more losers. A third fail. This ratio is not that different from the VC community.

Stanford’s OTL has been around 30 years and we have seen 4500 invention disclosures, have 1100 licenses, and have an income of about 500 million. However, more than half of that came from one invention. There are venture capital parallels. Often, we make judgments on the people side rather than the technology side. About 75-60% of our licenses come from referral contacts. Stanford’s Office of Technology Licensing (OTL) licenses 20-25 startup ventures a year.

Is it an appropriate role for a university to be involved in economic development? Is that legitimate?
Federal grant guidelines now want universities to develop this capability or they may threaten to withhold sponsorship. This is significant as federal grants provide about 2/3 of all the research support. It is difficult to get an NSF contract without technology transfer explicitly written in. For land grant universities, it may be part of their mission.

One example of handling the governments role is where the public agency provides the funds, but they form a for-profit venture that they will be a stakeholder in, but will not have anything to do with operations. Public agencies want to see their inventions disseminated in society, but they do not need to manage it and universities do not necessarily need to get involved in operations.
A Change in Attitude Towards Conflict of Interest
Fears of institutional conflicts of interest prevented Stanford from taking any equity before 1992. Stanford turned down Cisco’s offer of four percent of their founding equity, a very sad tale. There has been a shift from an avoidance of institutional conflict of interest to managing it. This happened in the 1990s. Where we once feared to get involved, we now think that a potential conflict, with the proper policy and procedures, could be managed.

Fostering Exchange
Stanford’s OTL has a category on our website for entrepreneurial opportunities. The School of Business forms interdisciplinary teams and we act as a source for ideas. We create lists of entrepreneurial opportunities and talk to them. We have had two new companies form as a direct result of that process.

Conflict of Interest – misalignment of incentives (Financial or nonfinancial)
Conflict of Commitment – misalignment of effort and attention

How are Universities Harmed by Conflicts of Interest/Commitment?
- Damaged reputation
- Misallocation of faculty effort.
- Misallocation of university facilities.
- Distraction from university’s core mission.
- Litigation

Our Need to Be Concerned
To what extent are these fears there because of experience versus apprehension? Our concerns may be more from apprehension, because we do not have history of serious conflict or abuse along these issues.
There has been shift in acceptance that this is an area that can be managed but needs proper procedures in place. This is manageable and we should not be fearful.

One could argue that there is always potential for conflict of interest. The big issue is disclosure. If it is not secret, then it is harder to have the appearance of conflict of interest. The potential damage comes from people who are not being open.

Are there arguments of unfair competition from others? When we grant exclusivity it is only for a limited term. If you are a public or private university, this may make a difference.

Established Companies vs. Startups
What percent of licensing is with established companies versus startups with equity investments?
That mix is changing. It is becoming very common for graduates to start companies. Part of the problem is to make sure that they get their diploma that is another source of conflict of interest. Stanford’s OTL has done about 100 startups and 45 of those were in the last 2 years. Of the startups we have invested in, over 75% of them have been within the last five years. Our deals with startups have shifted from less than ten percent to about a third of what we are doing now.

We have faced the decision of whether to give IP to a major firm with infrastructure ready, or to a startup where we provide support. That is a difficult position for a university to be in. University technology transfer office has limited resources. Universities want someone
with a blank check to come in and develop IP, because that is expensive. IP offices are underpaid and overworked, it is a difficult game. The value in the IP is not in the IP itself, but knowing what to do with it.

Ideas to handle this:

- One idea is to set up an independent nonprofit organization to pick up what the technology transfer office is not working with.
- Another idea is a policy that if the technology office turns it down, faculty can use their own resources to develop it. This effectively transfers the value of the IP to the faculty in their field as they will know what to do with it
- One engineering school is publishing all their IP and just giving it away. Publishing ensures that you will have “me-two” followers that may provide critical mass and market push. This may not work in biotech, but it may work in engineering.

Identifying and Preventing Conflicts of Interest
You run a course, when students develop an idea for a business, are you subverting the educational system when you get a revenue stream for your licensing office? When a startup as an output of a course, is there tension there? The OTL’s role is to help those who come to us. The issue we face is how much assistance can we give and not cross over a line where people feel we are not affecting the research or educational process. This has been a struggle for Stanford for the last 20 years.

Professors are often simultaneously involved in a university and startups. We encourage faculty to do this, and then we put handcuffs on them. This can be a disincentive and lead to problems in retaining faculty. Some universities get around this by offering professors who want to go into the private sector short-term leaves.

Professor Affiliations: Thorny Questions
- Should professors or directors be formally affiliated with venture funds?
- Should professors be affiliated with firms created by students or former students?
- Should professors have a financial stake in firms created by current or former students?

Universities cannot prevent professors from consulting. The answer to these questions may turn on the meaning of the word affiliated. Professors should not be affiliated with venture funds because that can lead to huge conflict of interest, particularly with donors to the university. One might give preference to one fund versus another that could affect future donations to the university.

It could also be perceived as the professors identifying deals for the venture fund as a direct channel from the university. Participation in a venture fund is different from consulting. Universities allow faculty to consult for a certain number of hours a week on whatever they want. An equity stake in a company is fine. Some universities require faculty to sign a conflict of interest statement that states the boards they are on etc. A link to a venture capital fund is another matter. It could create the impression that Stanford is playing a favorite.

When faculty consults, they are independent contractors, not employees of the University. What they do on their time is their business. They are not representing university. If they are public about their relationships and don’t hide it, that is ok.
Is it ok for faculty to have relationship with current students? That could lead to a conflict of interest in the grading relationship. Former students may be more acceptable than current students.

*Notes taken by Siobhan O’Mahony, Stanford University.*