

Open Innovation

~ Alliance Strategies for New Value Creation ~

1. Significance of Open Innovation

1) According to Henry Chesbrough, the father of open innovation, open innovation refers to innovation that combines technologies, ideas, services, know-how, data, and knowledge not only from the company itself but also from other companies, universities, local governments, social entrepreneurs, and other industries and fields to create innovative business models, research results, product development, service development, organizational reform, administrative reform, regional revitalization, and solutions to social issues.¹

2) In recent years, there has been a growing interest in open innovation (especially with startups). While there may be a wide variety of factors contributing to this trend, for example, the limitations of closed innovation may be the reason why business firms are engaging in open innovation.

In other words, in the past, the development of products and services using only the company's own technology (i.e., the "self-supporting" principle) was widely adopted, but in recent years, it has been pointed out that closed innovation alone has limitations due to the faster pace of technological innovation and the increase in products and services that cross over existing industries (e.g., IoT).

Open innovation is gaining attention as one of the ways to overcome this situation.

3) In addition, operating companies have the dilemma that they cannot easily engage in new businesses that would disrupt their existing leading businesses (innovation dilemma). On the other hand, it has become easier for startups to create new businesses without large amounts of capital and manpower due to the development of ecosystems surrounding startups and other factors. In such an environment, there is no doubt that one of the most effective ways for business companies to maintain and grow their existing businesses while making the "next move" for further future growth is to collaborate with startups that are taking on new business challenges.

2. Model Contracts and Business Partnership Guidelines

1) In the case of open innovation between established companies and startups, the government has released "Model Contracts Ver.1.0 for Promoting Open Innovation between R&D-based Startups and Business Entities"² and "Guidelines on Business Partnership Contracts with Startups"³, and the issues pointed out in these documents are mainly as follows.

1. Non-disclosure Agreements (NDAs)

- i) Enforcing disclosure of trade secrets without an NDA
- ii) Unilateral NDAs and NDAs with short contract terms
- iii) Use of trade secrets for other purposes in violation of NDA

2. Proof of Concept (PoC) Agreements

- i) Forced to perform

3. Joint Research and Development Agreements

- i) Unilateral attribution of intellectual property rights to the collaborator
- ii) Joint research in name only (where the startup is responsible for the majority of the R&D, but the intellectual property of the deliverables is shared or attributed only to the operating company)
- iii) Restrictions on use of deliverables

4. License Agreement

- i) Provision of license free of charge

- ii) Restrictions on patent applications
- iii) Restriction of sales destination

5. Others

- i) Provision of customer information
- ii) Reduction of remuneration or delay in payment
- iii) Unilateral assumption of liability for damages
- iv) Restriction of business partners
- V) Most Favored Treatment Conditions

2) As these model contracts and guidelines for business alliances with startups are based on the value axis of "maximizing the sum of the profits of both parties arising from open innovation," we have been able to draw on our experience in supporting both major business corporations and startups to provide support from the perspective of what framework should be used to maximize the profits arising from such open innovation, and how to design an agreement that embodies such a framework. We support our clients from the aspect of what kind of framework is desirable for alliances in order to maximize profits from such open innovation, and how to design contracts that embody such a framework.

3. Open Innovation between Universities and Startups

1) For universities, open innovation with startups can be one effective way to secure research funding and other resources. For example, when a university start-up receives a patent license from a university, the university may require the university start-up to pay a certain amount of licensing fee because the university pays a certain amount of money not only for the research and development of the target technology but also for the acquisition and maintenance of the patent rights. In the case of a license agreement with a large company, the license fee is paid in cash. However, in the case of a startup that is relatively weak financially and has the potential to grow significantly, the license fee may be paid in the form of shares or stock acquisition rights. (In fact, there are examples in Japan and the U.S. where this approach has resulted in universities earning large licensing fees.)

2) With our experience in supporting both universities and startups, we provide support from an IP and legal perspective to ensure that license agreements and joint R&D agreements proceed smoothly and that the sum of the benefits generated from open innovation is maximized while taking into account the value of the university's technology and intellectual property and the startup's business model.

1 Henry Chesbrough and Sabine Brunswicker, "Managing Open Innovation in large firms", 2013.

2 "Model Contracts Ver.1.0 for Promoting Open Innovation between R&D-based Startups and Business Entities" Compiled (meti.go.jp)

3 <https://www.meti.go.jp/press/2020/03/20210329004/20210329004-1.pdf>
https://www.meti.go.jp/english/press/2021/0329_003.html



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