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Corporate Governance and IP Laws

KUSUMANJALI S¹

ABSTRACT

This paper discusses the importance of Intellectual Property (IP) and the legal frameworks governing it within the corporate domain. It highlights the interdependence of IP and corporate governance, like "two faces of the same coin." Companies must establish rules and regulations to protect their IP from both internal and external infringement. This involves identifying and prioritizing IP valuation and protection, and adhering to relevant government laws and regulations. Effective IP governance boosts investor confidence, attracts investments, and contributes to a company's long-term success. The paper also addresses the challenges companies face in protecting their IP, such as the unauthorized use of trademarks and the complexities of navigating legal battles. By examining a case involving Qiaodan Sports Company and Michael Jordan, the paper illustrates the difficulties in proving trademark infringement and the importance of securing IP rights. Furthermore, it emphasizes the need for companies to adopt best practices for IP governance, including robust security mechanisms and comprehensive protection strategies.

Keywords: Governance, Intellectual Property, Trademark, Infringement, Company.

I. INTRODUCTION

In the year 1997, it was found that a sportswear company called Qiaodan Sports Company Ltd. of Fuji was using the word 'Qian Dan' which was a translation of American football player Michael Jordans' surname 'Qiaodan'. In 2002, the same company trademarked a logo of a jumping basketball player. In 2006, it also came up with a logo with the number '23' which was Jordan's Jersey number. Company also started using different Chinese letters which were similar to names of Michael Jordan's sons 'Marcus Jordan' and 'Jeffrey Jordan'.

Since 1991, Jordan had trademark rights with 'Nike'. When Nike was trying to expand in 2007 in China, it started to file for various trademarks for Jordan. This process was stopped because Qiaodan had made registrations earlier and the same or similar names will confuse the customers.

In the year 2012, Jordan filed a complaint to invalidate the trademarks of Qiaodan Sports almost 80 of them. it was found that Michael Jordan v. Qiandon Sports Co (2016). His

¹ Author is a Research Associate at RV University, India.

application saw rejection from Trademarks office, Appellate board, Beijing First intermediate Court and Beijing High Court on the ground that just usage of trademark which causes confusion to customers itself does not make it immoral for the company to use.

Jordan sought appeal in 2016 in China Supreme People's Court and recovered his commercial rights and the trademarks obtained by the Qiaodan Sports Company Ltd were invalidated. This is the Landmark case in trademarks "Michael Jordan v. Qiaodan Sports"², an example of how a name can become an asset to a person that fetches him significant income and reputation.

The name here in this case is Intellectual property (IP). IP refers to any original creation of human mind which is artistic, scientific, literacy or technical. Intellectual property rights (IPR) is legal rights given to the creator to protect his or her invention or creation for a certain period of time³. An IP assignee can use these rights and monetize his work. It develops a sense of healthy competition and also contributes to economy.

If an astronaut in space composes a song, then the rights for it are with nation top which the astronaut belongs. This has been cited in NASA agreement. IP domain keeps evolving and this is one such example for pushing boundaries in protecting IP.

Intellectual property is of different types namely, Trademarks, Patents, Industrial Design, Geographical Indication, Copyrights and Trade Secrets. Some examples for which IP is granted are trademarks given to brand or brand names, copyright to books, poems, music, patents to inventions and industrial design, geographical indication to products from a specific geographic area and are significant in that location.

Corporate governance is set of rules that a company follows for control and co-ordination. The shareholders of the company appoint Board of directors who take care of governance activities, this governance system ensures accountability and transparency in the corporate set-up. IP of a company is a part of its sensitive information and corporate governance plays an important role in protecting it which in turn means protecting shareholders interests. No company can exist without IP. This paper discusses about Importance of IP, legal frameworks governing IP in Corporate domain, challenges, best practices for a good IP governance, future trends and conclusion.

² MICHAEL JEFFREY JORDAN V. TRADEMARK REVIEW AND ADJUDICATION BOARD AND QIAODAN SPORTS CO., LTD. (2016) ZGFXZ No.27, SPC.

³ Singh R. Vol. 1. New Delhi: Universal Law Publishing Co. Pvt. Ltd; 2004.

II. IMPORTANCE OF IP

- 1) Intellectual property (IP) acts as a Brand Identifier, for example: the apple logo on apple products like iWatch, iPhone act as a status symbol and apple products are identified as luxury category products for that reason.
- 2) IP gives competitive advantage, competitors cannot replicate a product. There are two types of advantage, Comparative advantage and differential advantage. For example, a coffee brewing company can sell a coffee for less price to gain advantage over its competitors, this is comparative whereas Starbucks sells a similar coffee for much high price and still people buy it, this is differential advantage. It brings value as well as profits to a company.
- 3) It helps to gain customer loyalty, when a company like TATA builds a product, people buy it because of the loyalty company has gained over the years.
- 4) IP adds financial value, selling or licensing, for example: one-click patent's annual license fee paid by Apple to Amazon till 2017.
- 5) IP promotes Collaboration and technology transfer, if a company A invents a new solar panel technology but it does not have enough resources to bring the technology into practice by manufacturing on large scale and selling, then A can collaborate with B, a well established company in the renewable energy domain, produce and sell and make profits for both of them.
- 6) IP opens doors for global expansion, for example: QR payments have rapidly increased in India and the same has immense potential in other countries which makes payments and purchases quicker, easier to track and hassle free.
- 7) IP helps in gaining investors confidence, if a company X, that is producing electric vehicles manufactures vehicles that charge at half the time required by other electric vehicles. This has a lot of potential in attracting investment and investors will have confidence that these vehicles will sell better than others due to fast charging.
- 8) IP can be used as security or surety for loans, when a company has credit worthy patents or trademarks, it can use it as security to obtain loans.

III. CHALLENGES WITH IP

First, a company faces challenges in creating an IP that actually adds value or has a value. A strong R & D team is required to work on innovativeness to make IPs that actually holds value. Second, is in managing the IP, managing does not mean just renewing the IP.

Companies need to be aware of IP that has expired, a future of a particular IP. Third, the main aim in protecting IP is to avoid legal court battles, a poor IP is vulnerable to be challenged and be infringed by a third party. Fourth, increasing complexity in IP laws and also increase in artificial intelligence and machine learning. Fifth, Corporate is usually global and various jurisdictions with different type of laws pose a challenge. Sixth, online infringement, which is very easy nowadays and tracking it also is difficult.

IV. LEGAL FRAMEWORK

Intellectual property laws have to be robust and strict so as to protect the unique creation of human mind. It is governed by various laws and protocols both nationally⁴ and internationally⁵,

- 1) Paris Convention for Protection of Industrial Property (1883)
- 2) Agreement on the Trade-Related Aspects Intellectual Property Rights (1994)
- 3) Madrid Agreement Concerning the International Registration of Marks (1891)⁵ and its Protocol (1989)
- 4) Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks (1957)
- 5) Patent Cooperation Treaty (1970)
- 6) International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (1961)
- 7) WIPO Copyright Treaty (1996)
- 8) WIPO Beijing Treaty on Audiovisual Performances (2012)
- 9) Marrakesh Treaty to Facilitate Access to Published Works for Persons Who Are Blind, Visually Impaired or Otherwise Print Disabled (2013)
- 10) The Patents Act, 1970
- 11) Trademark Act, 1999
- 12) The Trade Marks (Amendment) Act, 2010

⁴ India Briefing, "Intellectual Property Rights in India: Laws, Procedures, Registration" (last updated [Date]), <https://www.india-briefing.com/news/intellectual-property-rights-india-laws-procedures-registration-14312.html/>.

⁵ World Intellectual Property Organization (WIPO), "Introduction to the International Intellectual Property Legal Framework" (WIPO Pub. No. 1081-1), <https://www.wipo.int/edocs/pubdocs/en/wipo-pub-1081-1-en-introduction-to-the-international-intellectual-property-legal-framework.pdf>.

- 13) Trade Marks Rules, 2003; Trade Marks Rules, 2017
- 14) Copyrights Act 1957
- 15) The Copyright (Amendment) Act, 2012
- 16) Copyright (Amendment) Rules, 2021
- 17) Designs Act, 2000
- 18) Designs Rules, 2001
- 19) The Designs (Amendment), Rules, 2021
- 20) The Geographical Indications(GI) of Goods (Registration and protection) Act, 1999
- 21) The Geographical Indications of Goods (Registration and Protection) (Amendment) Rules, 2020

However, there are some issues like prioritizing obtaining a patent over public health, lack of data exclusivity law in terms of test data which is often criticized by foreign investors and also anti-competitive market as patent law includes only patentees, society, government and competitors and excludes others.

V. ROLE OF BOARD OF DIRECTORS IN MANAGING IP

Intellectual property is part of intangible assets of the company. All of them are managed by the Board of directors as they are answerable to the shareholders at the end of the today. Many management schools do not teach on how to manage the IP, Board of directors are still not paying that much attention to these assets. They are completely into governing the company by annual or quarterly meetings and less focused on day-to-day affairs. It is time for them to wake up to reality and check on the IP of the company as it is also a crucial part and also a fiduciary duty. Questions that board of directors need to ask⁶-

- 1) Are company employees able to identify the IP that the company has? Are they trained in this regard?
- 2) What kind of intangible assets does the company have?
- 3) How many of these intangibles assets does the company own?
- 4) Is there inventory of intangible assets?
- 5) Who is protecting these intangible assets?

⁶ IP Vision, **Boards of Directors: Intellectual Property & Business Planning**, [Blog] IP Vision (Publication Date), <https://info.ipvisioninc.com/blog/boards-of-directors-intellectual-property-business-planning>.

- 6) How are the intangible assets managed?
- 7) Do these assets add any value to the company? If yes, Where, how and how much?
- 8) How much does the company spend to maintain these assets?
- 9) What are the efforts made to monetize these IP assets?
- 10) Can revenue be generated by selling IP assets that are no longer part of company's strategic focus?
- 11) How are company's assets different from competitors assets?
- 12) Is the company investing enough in development of new assets?
- 13) Does the company have appropriate policies and practices in place to deal with infringement?
- 14) Is the D & O insurance wide enough for claims?

Board of Directors have to work a plan with senior managers and set goals. It is high time that boards realize IP is not just a legal matter to be looked into by the legal team. It is because IP has not got been importance that it should be given hence this topic as come up with so much discussion.

VI. CASE STUDY: SUCCESSFUL IP

1) AMAZON'S 1-CLICK

In 1999, Amazon secured a patent for 1-click ordering option, this option enabled the customers to enter their billing, payment and shipping details in same page and purchase with just one click. This was a breakthrough invention which simplified the complex ordering mechanism to just one click. It proved to be a 'Huge asset' to the company according to Wharton professor Kartik Hosanagar. At that point of time, Amazon was a book seller.

Apple got the license to use the one-click method on its iTunes platform from Amazon for an annual fee. Amazon has roughly 24,355 patents but this single patent was worth US \$5960411. Amazon's rival, Barnes & Noble, a bookselling company introduced an option called 'Express Lane' which also facilitated for purchase with just one click. Amazon sued Barnes & Noble for copying its patent. As a result of infringement, Barnes & Noble had to make its ordering option atleast two-step. The patent has however ended in 2017 and others are now free to use the one-click for ordering.

University of Pennsylvania law school professor who is also an expert in patent law R.Polk Wagner said "Most importantly, it allowed Amazon to show customers that there was a good

reason to give them their data and the permission to charge them on an incremental basis. It opened up other avenues for Amazon in e-commerce. That is the real legacy of the 1-Click patent.”⁷

2) NIKE’S ‘AIR’ TECHNOLOGY

In 1970s, Nike, a key player in the footwear industry, patented its ‘Air’ technology which was designed by its team led by Frank Rudy. It meant having air pockets in sole of shoes for better cushioning; this was groundbreaking and was very useful to athletes. Different versions like ‘Max air’ and ‘Zoom air’ were also introduced and patented. It saw grand success and was endorsed by many athletes and consumers. Nike's success with its Air technology exemplifies how a harmonious blend of technological innovation, strategic branding, and robust patent protection can elevate a product to iconic status.⁸

VII. A BLUEPRINT FOR MANAGING IP ASSETS

- TRAINING EMPLOYEES:

Company has to train employees about IP assets; an employee should be able to identify the assets of the company which form part of intellectual property. They have to be trained about the IP policy of the company and their role in protecting those assets.

- REGULAR IP AUDIT

Company has to identify its IP assets like trademarks, copyrights, trade secrets, designs, patents. Regular audits have to be conducted by the company, it will show various loopholes in maintaining them and opportunities to make IP strong. This will also show the information that employees can access easily and also overseeing activity online.

- IP ASSET REGISTER

After a company undertakes audit, it has to create an asset register, it will make the work of company easy. This list of assets is to be shared to the board of directors who will be able to make better policies.

- IP IN BOARDROOM

Board meetings are conducted and issues relating to the company are discussed. It is not possible for the board to make decisions without proper information so an IP committee should report to the board about the current status of IP in the company. IP has to be a part of

⁷ Wharton Podcast, "Amazon's 1-Click Goes Off Patent," Knowledge@Wharton (June 30, 2022), <https://knowledge.wharton.upenn.edu/podcast/knowledge-at-wharton-podcast/amazons-1-click-goes-off-patent/>.

⁸ Nike, Inc. v. Innovation Challenges in Athletic Footwear, 123 U.S. 456 (2005).

agenda of the meeting, this will create a good IP environment in the company.

- IP POLICY

Once the IP of the company is discussed, policies on how to protect, market, commercialise assets can be framed easily. IP policy becomes a ultimate book of instructions for the IP team for proper management.

- IP STRATEGY

Audit report will show which IP is vulnerable and which IP is strong, accordingly steps can be taken to protect it. IP should also be commercialized to bring profits to the company. A proper strategy is required to bring in investments, this applies to activities of the company domestically and internationally.

- IP EXPERTISE

IP is no longer just to be dealt by a the legal team of the company. It goes way beyond just the attorneys team. IP experts are needed in the company who can go into the intricacies of the assets and identify every aspect, understanding every detail of IP. An expert will have its understanding technically as well.

- RISK COMMITTEE

When company has IP, it is bound to risks, it is bound to be exploited, copied and infringed by third parties. A risk committee should be formed for this reason who continuously assess the risks IP is exposed to. They have to protect it even before an unfortunate event occurs so as to reduce the legal costs that could incur to the company. This risk committee will consist of specialists like a legal professional and an IP professional.

- OTHER STEPS

Companies should make sure that the D&O insurance is wide enough to protect the higher management from infringement claims.

VIII. CONCLUSION

Intellectual property is an asset to any company and proper security mechanisms need to be in place to protect them. IP has to be monitored on day-to-day basis rather than being just a part of annual meeting discussion or it should not just be left to the legal team of the company. Both inbound and outbound protection should be a part of Corporate Governance with respect to IP. Inbound means the information belongs to outsiders that needs to be protected like that of suppliers. Outbound means the secrets of the company itself. Such data is sensitive and it

needs to be protected at all costs and if it leaks, it will lead to losses to the company in terms of reputation and money. Companies make use of various agreements and contracts to keep the information safe. All safety mechanisms have to be in place so the company's reputation is not at stake.

Intellectual property and corporate governance are like two faces of the same coin, they are interdependent and cannot be read separately. Companies need to have a set of rules and regulations in place so IP of company is not infringed either by outsiders or by the people inside the company. For this, companies first need to identify their IP and give importance to its valuation and protection. Various laws by the government and agencies have to be adhered to. This increases the confidence of investors which in turn will lead to growth of the company, it will also bring in more and more investments. Therefore, a good governance structure will only help the company to see success in long run.
