

IP OWNERSHIP: AVOIDING DISPUTES

Businesses often rely on employees and independent consultants to develop their intellectual property (IP) assets, and assume that they automatically own the rights on those assets, on the principle "I paid for it, therefore I own it". This, however, is not always the case.

IP Created by Employees

Many employees create intellectual property in the course of their employment. This may be a software program, an article, a script, architect's plans and drawings, a new logo, a new product or process, product packaging, a new product design, a business plan, an invention, and the output of many other types of creative endeavors.

But who owns the rights to these works: the individual creator or the employer? The answer to this question is not always easy or clear; it may vary from one country to another, and in a given country depending on the law and the facts and circumstances of a particular employer-employee relationship.

Inventions – In many countries the employer owns an invention made by an employee if it is related to the employer's business, unless the employment contract stipulates otherwise. Conversely, in some countries, the intellectual property rights to inventions belong in principle to the employee inventor, unless otherwise agreed. In other countries again, for example in the United States, the

employee inventor may retain the right to exploit the invention, but the employer is often given a non-exclusive right to use the invention for internal purposes. This is referred to as "shop rights". Special rules may apply, however, to inventions made by university teachers or researchers as may be prescribed in the intellectual property policy of the institution.

Some countries grant the employee inventor the right to a fair and reasonable remuneration or compensation for his invention if the employer takes rights to the invention, whereas other countries do not grant any specific remuneration for the employee, or only very limited remuneration in exceptional cases. (See case study on page 15.)

Copyright – In most countries, if an employee produces a literary or artistic work within the scope of her employment, then the employer automatically owns the copyright, unless otherwise agreed. But this is not always the case, under the copyright law of some countries the transfer of rights is not automatic.

There are several circumstances under which an employee may own all or part of the rights. For example, if the employer is a newspaper or magazine publisher, the employee will, in most countries, own the copyright for some purposes, such as publication in a book, and the employer owns the copyright for other purposes. As in other countries, if an employee generates a soft-

ware product in the course of his employment, he owns the copyright in the creative product, unless otherwise stated in the employment contract.

It should be noted also that the *moral rights*, the right to claim authorship of a work, and the right to oppose changes to it that could harm the creator's reputation, are not assignable and will thus remain with the



author even if the copyright ownership of the economic rights has been transferred to the employer. In some countries, such as the United States and Canada, moral rights can be waived.

Industrial Designs – Generally, when an employee is required to create a design, the design rights belong to the employer. In some countries, however, the right of ownership to industrial designs created by employees during the course of an employment contract belongs to him, unless otherwise agreed. In some cases, the employer is required

Many employees create intellectual property in the course of their employment — Who owns the rights?

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to pay the employee an equitable reward, taking into account the economic value of the industrial design and any benefit derived by the employer from the utilization of the industrial design. In other countries, such as the United States, the creator of an industrial design is the proprietor unless reward was paid for the industrial design.

IP Created by Independent Contractors

Companies regularly engage advisors, consultants or independent contractors to create a wide variety of original or new materials for them. This material can include business plans, marketing plans, training manuals, information manuals, technical guides, software, a website, designs, drawings, research reports, databases, a logo for an advertising campaign, and so on. Both sides, the company or the independent contractor, should take care when entering into such an agreement to adequately address the question of ownership of intellectual property assets. For example, if the consultant or contractor presents a number of distinct designs or logos and the company accepts only one, then who owns the intellectual property rights over the remaining options?

Inventions – In most countries, an independent contractor hired by a company to develop a new product or process owns all rights to the invention, unless specifically stated otherwise. This means that unless the

contractor has a written agreement with the company assigning the invention to that company, in general the company will have no ownership rights in what is developed, even if it paid for the development.

Copyright – In most countries, a freelance creator owns the copyright, unless he has signed a written agreement that this is a “work for hire”. If, and only if, there is such a written agreement in place, then the company who commissioned the job will normally own the intellectual property, but the moral rights remain in principle with the author. In the absence of such an agreement, the person who paid for the work is generally entitled to use the work only for the purposes for which it was created. Companies who, for example, have paid an independent contractor to create a website for them, may be unpleasantly surprised to find they do not own what has been created.

Different rules or exceptions may apply, such as in the case of commissioned photographs, films and sound recordings.

Industrial Designs – If a freelance designer is brought in, on commission, to produce a specific design, in many cases the intellectual property rights will not pass automatically to the commissioning party, but will remain with the freelance designer. In some countries, the commissioning party owns the rights in a design only if reward has been paid for that design.



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Practical Guidelines for SMEs

A few golden rules to avoid disputes with employees or independent contractors:

- ▶ ***Obtain legal advice*** – Ownership matters are complicated and vary from one country to another. As with most legal matters, it is essential to get skilled advice before entering into any agreement with employees or independent contractors.
- ▶ ***Conclude a written agreement*** – Agree on who owns the intellectual property rights to any material created by an employee or independent contractor, whether and when transfer of ownership will take place, who has the right to exploit it, who is to pay for it, whether improvements or modifications are allowed, etc. Make sure that the agreement is valid under the applicable intellectual property laws.

- ▶ **Draw up a contract before work is started** – Do not sweep intellectual property ownership issues under the carpet; make sure that you deal with these at the beginning, before the collaboration starts. Even the earliest stages of work can give rise to important intellectual property rights.
- ▶ **Include confidentiality clauses/agreements** in contracts with employees or independent contractors. Include non-compete clauses as well in employee contracts, as today's employees may be tomorrow's competitors.
- ▶ **Adopt internal policies and regulations or guidelines on employee inventions** – Such policies and regulations should contain provisions on, *inter alia*, the categories of inventions which fall within the field of the employer's business, the employee inventor's obligation to notify the employer of inventions, the employer's procedures for handling such notifications, confidentiality requirements and patent prosecution, remuneration for the inventor, etc. Such regulations should, of course, be in line with the applicable national intellectual property laws.
- ▶ **Take special care while outsourcing research & development (R&D)** – If other persons besides the employees of the company participate in such activities, ensure that all persons involved sign an agreement whereby they give the company sufficient rights to the results of their works. Companies should ensure that such

persons transfer any and all rights to the results of the project to the company, including the right to re-transfer the rights and especially the right to alter the works if the R&D project produces works or other materials eligible for copyright protection. Apart from inventions, the R&D agreements should also contain provisions conferring the rights to know-how, copyright for the research reports and results, and rights over the physical material involved in research activities, such as micro-organisms or other biological material, as well as intellectual property rights over any background information which is not within the public domain. All this should be kept strictly confidential.

There are broad variations amongst national laws on the ownership of an intellectual property right, both as to who is the first owner and on how that ownership can pass to others. Furthermore, the ownership of some types of intellectual property rights may differ from that of other types of rights even for the same work. To prevent misunderstandings, it is desirable for an SME to ensure that the issue of intellectual property ownership is clarified in the agreement with the employee or independent contractor, and it is preferable to do so with the help of an intellectual property specialist or advisor.

The next article in the IP and Business series will discuss "Copyright protection: An opportunity to benefit from your creativity in literary or artistic work".

Case study "An innovator in the U.S., a trouble-maker in Japan"

Mr. Shuji Nakamura has been celebrated in the United States as an innovative pioneer. But in Japan he is more controversial. After it was clear his inventions would make a lot of money, his employers took them to market without additional compensation for him. Mr. Nakamura sued the company, saying that the patents were the result of his efforts and that he should receive royalties.

His case points to striking differences in the way the United States and Japan treat their innovators.

In the United States, engineers and inventors often share in the corporate rewards from innovation, through employment contracts that specify royalties or other incentives such as stock options. But in Japan, engineers and scientists are almost universally treated as "salary men" who do not participate in corporate profits. Compensation for an invention is at the company's discretion and seldom amounts to more than US \$300.

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