

**WIPO-WASME  
Special Program on Practical  
IP Rights Issues**

**Geneva, May 3-6, 2004**

# **Importance of Managing the Ownership of IP Assets**

Lien Verbauwhede

Consultant, SMEs Division

World Intellectual Property Organization (WIPO)

# This Presentation

- 1. What's the problem?**
- 2. IP assets created by employees**
- 3. IP assets created by independent contractors**
- 4. Practical guidelines for SMEs to manage the ownership of IP assets**



# 1. The Problem ...

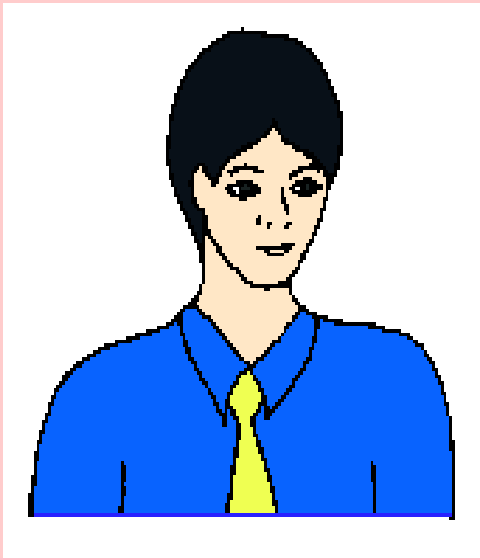
Businesses often rely on employees & independent contractors to develop their IP assets ...

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 !**





## 2. IP Assets Created by Employees

- **Many employees create IP assets in the course of their employment**
- **Who owns the rights to these works ? creator ? employer**
- **Answer is not always easy or clear**
  - it may vary from one **country** to another
  - the facts and circumstances of a particular **employer-employee relationship**
  - depending on the type of **creation**.

# (a) Inventions

## Examples

- Employee of cosmetic company invents new formula for hair treatment lotion
- Employee of textile company invents method of coating cloths that provides fire protection
- Employee of IBM invents new software for autonomic computing
- Employee of eyewear company invents new technology for sunglasses, that maximizes protection against sun & wind and minimizes distortion for all angles of view.



# Who owns the invention?

- **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.

*? Employees have duty not to compete with the company*

- **In many countries:**

- the **employer** owns an invention made by an employee
- if it is **within the scope of the employment**
  - where the employer specifically hires or directs the employee to exercise inventive faculties
- unless the employment contract stipulates otherwise.

*? When employment focuses on invention, employees need not own the patent because they have already received full compensation for their work ('hired to invent' doctrine)*

- **Difficulties**

- What is an employee?

- Degree of control, insurance, pension plan, vacation pay, sick leave

- What is “related to the employer’s business” or “within the scope of employment”?

- Job description, paid to perform, performed to serve the employer, within works hours, at the work place, using the equipment, etc.

## Case study

# New technology walks out the door with ex-employee

- Employee invented new technology for refrigerator; employer (company) filed for patent.
- Employee left company.  
?
- Employer argued it was entitled to the patent as the employee developed it *during his employment*.
- Employee argued that inventing was *not part of his job description*.
- Employee won. Assigned the invention to competitor...

- **In some countries:**

- inventions belong in principle to the **employee** inventor
- unless otherwise agreed in written contract

*? An individual owns the patent rights to his/her invention even though the invention was conceived or reduced to practice during the course of employment*

## Case study

# Employee refuses patent filing

- Employee invented system that brings dramatic advance in the capacity of DVDs. Allows to store up to 10 movies on a single DVD-disk.
- Company wanted to apply for patent protection.
- Employment agreement provided no arrangement on IP ownership.
- National law states that ownership of an invention vests in the inventor (**employee**).
- Employee refused to assign patent rights...

- **In other countries (e.g. US):**

- the **employee** inventor may retain the right to exploit the invention
- but the **employer** is often given a non-exclusive right royalty-free license to use the invention for his own business purposes (in his shop)
  - if invented on the employer's time, utilizing the employer's money, property, equipment, labor, etc.

? *When the circumstances demand it, under the principles of equity and fairness ('shop rights' doctrine)*

- Some countries grant the employee inventor the right to a fair and reasonable **remuneration** for his invention if the employer takes rights to the invention
- Other countries do not grant any specific remuneration for the employee.



## Case study

### An innovator in US, troublesome in Japan\*

- **Nakamura has been celebrated in the US as an innovative pioneer. But in Japan he is more controversial.**
- **Works now at Japanese chemical company. After it was clear his inventions would make a lot of money, his bosses took them to market without additional compensation for him.**
- **Nakamura sued the company, saying that the patents were the result of his efforts and that he should receive royalties.**

*\*International Herald Tribune, Sept 30<sup>17</sup>, 2002*

- **This case points to striking differences in the ways the US and Japan treat their innovations.**
- **In **the US**, engineers and inventors often share the corporate rewards from innovation, through employment contracts that specify royalties or other incentives, such as stock options.**
- **But **in Japan**, engineers and scientists generally do not participate in corporate profits. Compensation for an invention is at the company's discretion and seldom amounts to more than US\$ 300.**

- Some laws impose on the employee a **duty to inform** the employer about the existence and the nature of the invention.

? The employee cannot apply for a patent without the knowledge of the employer, otherwise the employee could be dismissed.

# (b) Copyright

## Examples

- Employee writes technical manual
- Salaried reporter writes news stories for a daily newspaper
- Marketing department employee makes advertisement, or logo
- Architectural plan, blueprints
- Employee programmer writes software program
- Employee creates database

# Who owns the copyright?

- In most countries, if an employee produces a literary or artistic work within the scope of his employment, then the **employer** automatically owns the copyright, unless otherwise agreed.
- **Not always the case**; under the copyright law of some countries the transfer of rights is not automatic.

- **Specific rules** may apply:
  - newspaper or magazine publisher
    - in some countries, the employee owns the copyright for some purposes, such as publication in a book, and the employer owns the copyright for other purposes.
  - software product
    - in some countries, the employee owns the copyright, unless otherwise agreed.
  - photos
    - in some countries, automatic transfer of copyright to the employer.

– database

- in some countries, *sui generis* protection.

– collective works

- Made by several creators under the direction of an individual or company.
- In some countries, the individual or company having directed the creation process is deemed to be the initial owner of copyright in the work incorporating the different contributions of the different creators.

- The **moral rights** remain with the author even if the copyright ownership of the economic rights has been transferred to the employer.

? Employer will still need to consult its employee if a new type of exploitation is planned or if a modification to the work is desired.



## (c) Industrial Design

### Employee creates

- new and original design for sunglasses
- new composition of pattern of colors and lines, for textile
- new shape for jewelry
- new design for a lamp, sofa, teapot

# Who owns the ID rights?

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

- In some cases, the employer is required 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 (e.g. US), the creator (**employee**) of an industrial design is the owner **unless reward was paid** for the industrial design.

## (d) Trademarks

- Trademark law protects signs to **identify products or services** and distinguish them from others in the market place.
- So, the trademark holder will generally be the **employer**, i.e., the manufacturer or merchant of the products, or the provider of the services.

? At a first glance, the question of distribution of rights between employer/employee does not appear relevant.

- But: a sign must be “**available**” (not subject to third party’s rights).

? This means, for instance, that the copyright of an employee in an original logo must be transferred to the employer to allow the registration of the logo as its trademark.



### 3. IP Assets Created by Independent Contractors

## Case study

- Company hires a web developer to create its website.
- Without a specific agreement to transfer the IPRs in the site, often the web developer owns most of the IPRs in the site.

- Consequences:

- Company is only entitled to use the website for the purposes for which it was created.
- Company cannot change the website without permission.
- Web developer can use text, artwork, graphics, source code, etc. for other sites.



# (a) Inventions

## Examples

- Independent engineer is hired to invent manufacturing process
- The Nike AIR system (cushioning technology for running shoes) was developed by Marion Frank Rudy, an independent inventor in California, and licensed to Nike

# Who owns the invention?

- 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 the company will have no ownership rights in what is developed, even if it paid for the development.

## (b) Copyright

### Examples

- Independent designer is commissioned to create new logo for a company
- Freelance photographer is ordered to take pictures of the company's products for product catalogue
- Freelance writer writes script for film producer
- Freelance software author writes software program for a company

# Who owns the copyright?

- In most countries (e.g. US):
  - a **freelance creator** owns the copyright
  - even though there's only one copy, and it is sold
  - **unless** he has signed a written agreement that this is a specially commissioned "**work for hire**".

- Some countries:
  - do not recognize the specially commissioned “work for hire”
  - **freelance author** owns copyright
  - you need an assignment to transfer those rights to the commissioner

- **Specific rules** may apply:
  - commissioned photographs
  - commissioned films
  - commissioned sound recordings
  - other

## (c) Industrial designs

- If a freelance designer is brought in, on commission, to produce a specific design, in many cases the IPRs 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.

## Case study

### **Freelance designer**

- Company engages freelance designer, on commission, to produce a specific design for computer mice.
- According to national law, the IPRs remain with the designer.
- No contractual arrangements on IP ownership.





- Consequences:

- Design rights can only become the property of the company through transfer, and against a special **remuneration**.
- If design rights remain with freelance designer ? he can grant **licenses** to competitors to use the same design.



## 4. Practical Guidelines for SMEs to Manage the Ownership of IP Assets

# 1. Obtain legal advice

- Ownership matters are **complicated** and **vary** from one country to another.
- Get skilled advice **before** entering into any agreement with employees or independent contractors.

## 2. Conclude a written agreement

- Regardless of the business situation, it is advisable to have an IP ownership agreement with **all** employees and contractors

⇒ **separate agreement**

⇒ **included in employment / consulting agreement**

- Agree on :
  - who **owns** the IPRs 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, modifications, derivative works** are allowed.
- Make sure that the agreement is **valid** under the applicable IP laws.

### 3. Draw up a contract before work is started

- Make sure that you deal with IP ownership issues at the beginning, **before the collaboration starts.**
- Even the earliest stages of work can give rise to important IPRs.

## 4. Include confidentiality clauses

- Include **confidentiality clauses** 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.



## 5. Adopt internal policies on employee inventions

- Should contain provisions on :
  - what categories of inventions fall **within the field** of the employer's business
  - employee's obligation to **notify** the employer of his inventions
  - employer's procedures for handling such notifications

- **confidentiality** requirements
  - patent **prosecution**
  - **remuneration** or for the inventor
    - incentive: payment for each patent issued upon which the employee's name appears as inventor
  - etc.
- 
- Such regulations should be in line with the applicable national IP laws.

## 6. Take special care while outsourcing 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.

- Ensure that such persons transfer **any and all rights** to the results of the project to the company, including :
  - the right to retransfer the rights
  - the right to alter the works (if the R&D project produces results 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
  - **rights over the physical material** involved in research activities, such as micro-organisms or other biological material
  - **IPRs over any background information** which is not within the public domain.

# **Conclusions**

- **There are broad variations amongst national laws on the ownership of an IPR**
  - both as to who is the first owner and
  - on how that ownership can pass to others.

- **Grey zone**

- “employee/independent contractor” not always clear
- “within the scope of employment” not always clear
- “work for hire” not always clear

- **The ownership of some types of IPRs may differ from that of other types of rights even for the same work.**



- **To prevent misunderstandings**

?  
is ensure that the issue of IP ownership  
**clarified in the agreement** with the  
employee or independent contractor.

?  
of an it is preferable to do so with the help  
IP specialist or advisor.

***Thank You***