EMPLOYERS, EMPLOYEES AND INTELLECTUAL PROPERTY RIGHTS

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2002 GUEST LECTURE ON GLOBALISATION
FOR THE LLM IN EMPLOYMENT LAW AT THE UNIVERSITY OF GLAMORGAN

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INTELLECTUAL PROPERTY

Intellectual property is the proprietary right that the creator of concepts and ideas has in those rights and ideas. Such rights are valuable commodities and as such protectable by copyright, trademark and patent. The law governing their protection is very complex and unlike the proprietary rights in land and moveables, the rights are not as permanent and immutable. However, both forms of property right are lawfully transferable and readily saleable commodities.

THE DILLEMA : EMPLOYER INTERESTS VERSUS EMPLOYEE RIGHTS

Innovation lies at the heart of much of commercial success today. Commercial enterprises in order to gain an edge in the market place need to invest heavily in Research and Development of the product, distribution, marketing, quality control and management systems. The human resource element within each of these is considerable. Commerce has a vested interest in the protection of its intellectual property rights and since management itself will have contributed little to the creative process apart from finance, this must include those concepts and ideas created by its employees.

Two questions that therefore arise from this are

1) The extent to which the employer or the employee owns the concept or idea

2) Who is entitled to exploit the concept or idea ? In particular is exploitation the sole preserve of the employer ?

Furthermore, there is a widely held view that an organisation's human resource is a valuable commodity in its own right. It has even been called the new commercial property of the 21st century. Where the key commodity of an enterprise is expertise, knowledge and skill, that enterprise is only as good as the people that work for it. The principal aim of many mergers and takeovers is the acquisition, often at great expense, of this highly valued commodity. Key personnel are poached from other organisations, lured by attractive employment packages. Alternatively, an organisation can invest heavily in training, to enhance the value of the workforce.

Members of the workforce will gain an intimate knowledge of various aspects of the concepts and ideas which constitute the organisation's intellectual property and will have access to other information, which even if not strictly speaking intellectual property, is none the less extremely valuable to the organisation, namely the contacts, profit margins, the pricing of both purchases and sales, suppliers and clients of the organisation.

Finally, members of an organisation can take on part of the aura of the organisation that arises out of its "reputation", "client confidential information", "good will" or "standing." Good will is a valuable commodity in that it often forms part of the price when an enterprise is sold. Reputation is legally protectable against libel and slander and trademark law provides some protection against others trading off the reputation of registered business names and trademarks.

The questions that arise from this are

3) To what extent, if at all can an organisation legally protect its financial investment in its workforce ?

4) To what extent, if at all, can an organisation ensure that departing personnel do not profit, to the organisation's detriment from the use of knowledge acquired during employment about general contacts, profit margins and costings, suppliers and client lists ?

5) To what extent, if at all, can an organisation ensure that departing personnel do not trade off the organisation's reputation to its detriment and particularly to prevent the emigration of clients who may identify themselves more closely with the individual as the provider of a personal service than with the organisation itself ?

In direct juxtaposition to the interests of the employer lies the much vaunted modern concept of the freedom of movement of the employee, whose right to freedom to engage in gainful employment, with whomsoever he[1] chooses, is now highly protected by European Union and United Kingdom legislation.

The question arises therefore as to

6) The extent that the laws aimed at protecting an organisation's rights in the product of its investment in human resources, research and development, client base and market position are compatible with the laws protecting the individual's right to freedom of movement.

This is further complicated by the fact that there are no universal global codes governing either group of rights. Thus, whilst intellectual property rights have acquired significant importance in the West, there are many third world countries that do not respect such rights at all, and even where they are officially respected, there is virtually no effective policing or enforcement mechanism. Interpretations of what is or is not protected vary considerably from one legal system to another. Whilst any lowering of intellectual property rights enhances the individual's ability to move within the workplace, the concept of the right to freedom of movement of the employee is far from universally recognised. Western Europe has developed further in this field than most of the rest of the world. Many countries have a distinct competitive advantage over the West in that they can virtually generate and maintain a captive workforce, thereby preventing the emigration of employees to their competitors, thus protecting their various investments in their human resources and their intellectual property interests.

THE DEBATE

Question 1 : Who has intellectual property in concepts and ideas developed by an employee during the course of employment ?

This is likely to depend on the terms and conditions of the contract of employment. Modern contracts therefore frequently state categorically that the employer has all property rights in concepts and ideas which the employee develops or participates in developing during the course of his employment. By contrast, certain categories of employee, in particular University Lecturers are often entitled under their contract of employment to retain copyright in their work.

If the contract of employment is silent on the matter then it may be difficult for either party to assert intellectual property rights in concepts and ideas created solely by the employee without any input from colleagues. Collaborative work however is likely to vest in the employer. The problem lies in the fact that an employee develops himself during the process of developing ideas and concepts which can become an integral part of who he is and what he is capable of doing. Thus, a difficult area for the assertion of intellectual property rights is the development of techniques, work methodology, data-base construction design, regulations and management systems. Certain design work, such as architecture and any other concrete product design is readily detectable at a later stage if the competition breaches an asserted copyright. However, regarding in-house structural systems, even if the employer can assert a right, whilst they may be an invaluable asset to a new employer, their use will be difficult to detect and hence assertion of the right may be impossible.

An employee may furthermore develop ideas and concepts whilst employed but the creation occurs outside the strict definition of the course of employment. An individual's mind does not shut down the minute he clocks off and one is likely to think about problems and other matters encountered in work outside working hours. Does the employee have ownership of ideas developed in private time?

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[1] In this article, "he" includes "she" unless the context otherwise requires.

Who has ownership of suggestions placed in the suggestion box dreamt up whilst in the bath ? Recognising this, many firms pay a bonus or reward for valuable suggestions which are subsequently adopted and implemented. Does the employer purchase a proprietary interest in the concept or idea by paying a reward?

An employee may also develop ideas and concepts not related to the employment both during work time or outside it. What is related to employment may result in difficult questions. Allied to this is the development of an idea or concept which is employment related but which is spurned by the employer. If the employer fails to implement an idea can the employee then sell it to advantage to the competition ? Clearly, if the employer does this whilst still employed he breaches his duty to act in the best interests of his employer. However, once he has left that employment it is commonly believed that that duty comes to an end in the absence of a "solus" or "confidentiality" agreement. Even where such an agreement exists, concepts rejected by the employer, which will often result in the employee feeling rejected and prompt resignation, are unlikely to fall within the scope of the agreement.

Question 2 : Who is entitled to exploit concepts and ideas developed by an employee during the course of employment ? In particular is exploitation the sole preserve of the employer ?

Clearly, where the employer asserts intellectual property rights, as set out in 1) above, property and the right to exploit vests in the employer. This must be particularly so where the employee was merely one of a team working on a concept or idea. However, whilst the previous employer can protect against direct and patent exploitation of such ideas and concepts the employee is left with much scope for indirect exploitation, particularly where his skill and knowledge are used to assist in the development and refinement of ideas and concepts in the course of further research and development.

If this were not so it would be virtually impossible for those engaged in the cutting edge of technology to move on to other jobs. The individual cannot unlearn that which he has acquired.

Question 3 : To what extent, if at all can an organisation legally protect its financial investment in its workforce ?

This is a thorny issue. Once an employee has gained additional qualifications he becomes more marketable. One technique is to put terms into a contract of employment that require the departing employee to reimburse the employer for the cost of training. Alternatively, training may only be provided to employees who sign an agreement that they will continue to work for the organisation for a fixed period of time after completing the training. Whilst it would not be possible to prevent the employee leaving the organisation, since specific performance of employment contracts is not available under English Law, the employee may be held liable for breach of contract and required, (if they have the financial wherewithal to comply) to pay damages. Alternatively, the new employer who induces the employee to leave may be liable under the tort of **Lumley v Gye**,[2] for unlawful interference with the contract of employment between the employee and his previous employer.

Some organisations rely on larger organisations training their future employees, thus cutting their cost base considerably. Whilst the best way of preventing human resource wastage is to provide attractive remuneration packages and good working conditions and relations, this has an implication for costing. The poaching employer may be able to provide high wages simply because they have not had to bear the costs of training in the first place.

However, an alternative view is that it is only by working for a wide range of employers that an individual can obtain a widespread degree of knowledge and experience in the industry. Frequently an individual can hit a glass ceiling in an organisation and strategically planned moves are a useful

[2] **Lumley v Gye** (1853) 2 El. & Bl. 216

way of enhancing and projecting a career. The job for life is now a thing of the past and cannot be guaranteed from the employee's perspective. Employees today have indeed to be flexible and prepared to change, and indeed to retrain on a regular basis. Allied to this is the fact that many employees will finance their own training, often without any help or assistance from the employer.

Question 4 : To what extent, if at all, can an organisation ensure that departing personnel and their new employers (if any) do not profit, to the organisation's detriment, from the use of knowledge acquired by the employee during the course of employment about general contacts, profit margins and costings, suppliers and client lists ?

Where the employer can successfully assert intellectual property rights over information possessed by the employee and acquired by him during and or by virtue of that employment, then the employer has some level of protection against commercial exploitation of copyright and patent rights. However, even these are vulnerable to adaptation which can evade enforcement of the rights. Furthermore, it may be very difficult to assert rights over sensitive information about costings and profit margins, knowledge of which can give a competitor a strategic advantage. The use of client lists for marketing purposes can however give rise to legal liability by the infringer and an injunction may prevent further use.

The primary remedy for the employer lies in an action for breach of Confidence. See **Coco v A.N. Clark (Engineers) Ltd.**[3] **Speed Seal Products v Paddington,**[4] **Cranleigh Precision Engineering v Bryant,**[5] **Faccenda Chicken v Fowler,**[6] **Lancashire Fires Ltd v SA Lyons and Co Ltd**.[7]

Of course, an employee can never obtain intellectual property rights to any intellectual property rights of the employer and therefore the laws governing copyright, patent and passing off will be available to the employer should a new employer seek to exploit such property. Such rights exist quite independently of the law of employment.

Question 5 : To what extent, if at all, can an organisation ensure that departing personnel do not trade off the organisation's reputation to its detriment and particularly to prevent the emigration of clients to other competitor organisations, since clients may identify themselves more closely with the individual as the provider of a personal service than with the organisation itself ?

Contract law provides some protection for the employer through the use of solus agreements in contracts of employment. However, in the United Kingdom the courts will scrutinize contracts in restraint of trade closely. They are subject to a rigorous "reasonableness" test which prevents the use of provisions with too wide a geographical scope in the context of the industry or which define what the types of employment that the departing employee can engage in, in broad rather than specialised terms.[8] As a matter of public policy, English Law has sought to ensure that the individual con be gainfully employed contributing to the economy whilst ensuring the ability to maintain himself and his family without imposing a burden of the state.

Hair dressers and solicitors continue to make widespread use of such terms, though there is a delicate tightrope to walk regarding enforceability in order not to breach European Union legislation on anti-competitive practices to ensure open competition and freedom of movement. Solus agreements regarding the sale of enterprises are easier to enforce.

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3 **Coco v A.N. Clark (Engineers) Ltd** (1969) RPC 41

4 **Speed Seal Products v Paddington** (1986) 1 All.E.R. 91;

5 **Cranleigh Precision Engineering v Bryant** (1964)

6 **Faccenda Chicken v Fowler** (1986) 1 All ER 617

7 **Lancashire Fires Ltd v SA Lyons and Co Ltd** (1996)

8 See **Panayiotou v Sony** [1994] E.M.L.R. 317 and **Watson v Prager** [1993] 1 E.M.L.R. 275.

Whilst the direct poaching of clients can be guarded against, little can be done to prevent a client switching allegiance, beyond the use of loyalty agreements between the organisation and the client.

The fact that an individual has worked for a prestigious organisation is often the very reason that the individual is desirable to another organisation.

Question 6 : To what extent are the laws aimed at protecting an organisation's rights in the product of its investment in human resources, research and development, client base and market position compatible with the laws protecting the individual's right to freedom of movement ?

The question here relates partly to whether or not the law has struck the right balance between the two competing interests and partly as to whether the two sets of laws have even developed in any coherent way with respect to each other.

Intellectual property rights have developed regarding their own particularly sphere of influence which rarely involves any consideration of the employer/employee relationship. The main focus of attention is third parties, outside and quite independently of the master/servant relationship, infringing the proprietary rights of another. Employment issues are therefore a minor complicating factor and not part of main thrust of legal development. Thus the courts have in this respect rarely considered the question either of balance or of compatibility.

Clearly, where the courts have been required to consider the respective rights of employer and employee, the court have had in mind the balance between their respective rights. However, much of employment law has developed its central concepts independently of and with out particular regard to the developing field of intellectual property, and in such situations neither balance nor compatibility have been an issue.

Conclusion

The conclusion must therefore be, that the extent to which the right balance and compatibility has been achieved, is more a consequence of accident rather than design, or perhaps it can be put down to the innate ability of judiciary and legislators to intuitively do the right thing ?

