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Corporate and Individual Rights in Technology

*Philip T. Erickson**

The purpose of this paper is to present a corporate perspective on the rights of the corporation and the individual in Canada with respect to technology originated by employees and by non-employees. In the case of non-employees, the focus will be on submissions to corporations of unsolicited suggestions by individuals.

I. TECHNOLOGY ORIGINATED BY EMPLOYEES

An assessment of the rights of ownership of technology between employer and employee must begin with an examination of the relevant laws and jurisprudence. The ownership of technology created by an employee is usually determined in the context of the statutory rights of the intellectual property aspects of the technology, i.e. patents, industrial designs and copyright.

A. Patents

There is very little statutory authority in Canada for determining the ownership of inventions and consequent patents between employee and employer. The Patent Act¹ is silent on this point except with respect to instruments and munitions of war. The rights to any such invention made by an officer, servant or employee of the federal government or of a corporation that is an agent or servant of the federal government, while acting within the scope of his employment, must be assigned to the government, if it is required by the Minister of Defence.²

There is a separate statute, the Public Servants Inventions Act,³ which requires that all inventions made by federal government employees and employees of Crown corporations in the course of their duties be assigned to the federal government. However, this Paper is directed to the situation in the private sector.

The Patent Act of Canada is in the process of being changed in accordance with the infamous Bill C-22.⁴ That bill, which attained notoriety for its partial restoration of rights to the owners of drug patents and hence was dubbed "the drug patent bill," contained a number of "routine

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¹ 6 R.S.C. ch. P-4 (1970).

² *Id.* § 20.

³ 6 R.S.C. ch. P-31.

⁴ 1 Can. Stat. ch. 41 (1987).

housekeeping" matters that went virtually unnoticed in the press. They included changing Canada's patent system from first-to-invent to first-to-file (thereby leaving the U.S. virtually alone in the world in that respect) and Canada's adherence to the international Patent Cooperation Treaty ("PCT"). But none of these changes addressed the issue of rights to inventions between employees and employers.

Mercifully, the drafters of Bill C-22 overlooked, or simply ignored, the proposals that were made in the government-sponsored Working Paper on Patent Law Revision which was published in 1976. Those proposals would have enshrined in the statute the right of employers in the first instance to take ownership of inventions made by their employees and associated with their employment. However, the proposals also would have enabled an employee to put his employer on notice to file a patent application within three months and to take steps within three years thereafter to work the invention in Canada. Failing that, the employee would be entitled to take ownership of the invention regardless of the conditions under which it was made. The consequences of such a provision were too dreadful even to think about!

It is not clear whether those proposals would have been limited to the rights in Canada. In other countries which have enacted laws specifically directed to ownership of employee inventions, extra-territoriality seems to be a definite element. We have run into this at Northern Telecom with respect to an offshore technology licensee. Employees of the licensee made an invention related to the subject matter of the license and, under the relevant statute, the employees took title with little more than a "shop right" left to the licensee. Despite a grant-back obligation, the licensee is precluded from extending rights to Northern Telecom. The possibility of such an eventuality had been recognized when the license was being drafted and language was included which provided an "escape hatch" for the licensee. Nevertheless, the licensee has determined that validity is in doubt and is in the strange position of opposing the grant of patents to its employee inventors.

Except for the special circumstances noted above, the rights of the employee and employer in Canada are to be found entirely in the jurisprudence. The basic philosophy was enunciated as early as 1871 in the case of *Bonathon v. Bowmanville Furniture*⁵ where the Court of Queen's Bench observed: "The master cannot claim an invention made by a workman in his employment. But it may be different when the workman is employed for the express purpose of devising improvements."⁶ There was no specific contract of employment in that case; the employee had simply been asked by his foreman to develop an improved piece of chair-making equipment. That request was considered sufficient to place the

⁵ 31 U.C.R. 413 (1871).

⁶ *Id.* at 424.

employee in a position of trustee to his employer for the results of his efforts in that particular task.

Although few in number,⁷ the ensuing Canadian cases have reinforced the early doctrine which prompted the Quebec Superior Court to observe in 1984 in *Devoe-Holkein v. Yam*⁸ that the doctrine is "based on the constant jurisprudence beginning with the [*Bonathon*] case."⁹ Except for the *Devoe-Holkein* case, all of the cases I reviewed were concerned with situations where there were no formal contracts of employment clearly placing ownership of the employees' inventions with the employers. Each case involved the task of determining whether by the nature of the employment there was an implied obligation on the employee to give up to his employer any rights in his invention which he might otherwise have retained for himself.

Somewhere in the process, employers learned not to leave these ownership determinations to chance based on implied obligations; they adopted employment agreements with explicit language broad enough to cover every conceivable eventuality within reason. They must have done a good job of it: my research did not reveal any case which struck down an employment agreement as being too sweeping with regard to inventions deemed to be the property of the employer. That is not to say that such situations may not exist; rather that they do not seem to arise for judicial determination.

B. Industrial Designs

In the case of industrial designs for the purely aesthetic features of functional articles, the Industrial Design Act¹⁰ includes specific provisions for ownership. It provides that: "The author of any design shall be considered the proprietor thereof unless he has executed the design for another person for a good or valuable consideration, in which case such other person shall be considered the proprietor."¹¹

Although there is a limited amount of case law directed to the issue of ownership of industrial designs, it is evident that this provision is a statutory realization of the doctrine of implied ownership developed in the patent cases noted above. In each instance where the employer was held to be the proprietor or owner of the industrial design, the design was found to have been within the scope of the duties of the employee-author.

⁷ See H. FOX, *THE CANADIAN LAW AND PRACTICE RELATING TO LETTERS PATENT FOR INVENTIONS* 230-242 (4th ed. 1969).

⁸ 2 CAN. INTELL. PROP. REP. 229 (1984).

⁹ *Id.* at 246.

¹⁰ 4 R.S.C. ch. I-8 (1970).

¹¹ *Id.* § 12.

C. Copyright

The Copyright Act¹² of Canada also specifically provides for situations in which ownership of copyright in a work created by an employee rests with the employer. The Act states:¹³

Where the author was in the employment of some other person under a contract of service or apprenticeship and the work was made in the course of his employment by that person, the person by whom the author was employed shall, in the absence of any agreement to the contrary, be the first owner of the copyright.

It should be noted that the cases have drawn a distinction between a "contract *of* service" as used in the Act and a "contract *for* service." In his book on copyright in Canada,¹⁴ Dr. Fox notes that the Court in a 1910 English case

pointed out that a contract of service was not the same as a contract for service, and that the existence of direct control by the employer, the degree of independence on the part of the person who renders services, the place where the service is rendered, are all matters to be considered in determining whether there is a contract of service.¹⁵

The court went on to hold, in the words of Dr. Fox, that

a contract of service involves the existence of a servant, and imports that there exists in the person serving an obligation to obey the orders of the person served. A servant is a person who is subject to the commands of his master as to the manner in which he shall do his work.¹⁶

Thus, the expression "contract of service" has been held to apply to situations of employment where the employer has direct control over the activities of the employee and the work was created by the employee in the course of that employment. It has been held, again in the English cases, that work performed by an employee for his employer outside of his regular duties may not fall within his contract of service and he would own the copyright in that work.¹⁷

D. Employment Agreements

As noted earlier, employment agreements are intended among other things to eliminate, or at least to minimize, doubt as to whether an employer owns the rights to technology generated by an employee. Even the specific statutory provisions in the case of industrial designs and copyright leave considerable room for doubt; in particular, the expres-

¹² 2 R.S.C. ch. C-30 (1970).

¹³ *Id.* § 12(3).

¹⁴ H. FOX, *CANADIAN LAW OF COPYRIGHT AND INDUSTRIAL DESIGN* (2nd ed. 1967).

¹⁵ *Id.* at 255.

¹⁶ *Id.*

¹⁷ *Byrne v. Statist Co.*, 1 L.J.K.B. 622 (1914); *Stevenson Jordan & Harrison Ltd. v. MacDonald & Evans*, 69 R.P.C. 10 (1952).

sion “in the course of his employment” used in the Copyright Act and appearing in different forms in the jurisprudence, is capable of an interpretation which is much narrower than most employers would want. Employment agreements will therefore usually encompass discoveries made by employees which, in the words of Northern Telecom’s form of agreement, relate “to any matter or thing with which the Company’s business is directly or indirectly concerned.” This avoids the employer’s rights being limited strictly to the work products of the tasks to which an employee is specifically assigned.

The rationale for such provisions is that inventions made by employees outside their assigned duties but within the employer’s field of business usually derive from the employment relationship and are facilitated by the access of the employee-inventors to information that would not be readily available to non-employees. Furthermore, the making of such inventions almost invariably involves at least some time and expense on the part of the employer. There may also be a concern that individual interests might be actively pursued to the detriment of the employer both as to potential conflicts of interest with employees and to attention being diverted from assigned duties.

It might be asked with regard to this last point how employers rationalize an employment philosophy which, at least on the surface, seems directed to discouraging employees from looking for inventive solutions outside their regular work assignments while usually promoting an employee suggestion plan which encourages employees, usually through significant financial rewards, to propose cost-cutting ideas wherever they might arise. Many distinctions could be drawn, but the single most important factor, in my estimation, is that cost reduction suggestions are not seen to rise — and seldom do — to the level of invention where the statutory right in the form of a patent has the potential for far-reaching consequences. Indeed, technical employees are seldom intrigued with non-inventive solutions to problems outside their spheres of interest.

Northern Telecom’s employment agreement removes another element of doubt by providing that the employee’s obligations extend to discoveries made “whether during or after working hours.” On the other hand, those obligations are restricted to discoveries made by the employee “while employed by the Company.” The principal provision that transcends termination of employment is the obligation to preserve the confidentiality of trade secrets and proprietary information learned or created during the period of employment.

As already noted, no litigation in Canada was uncovered that found employment agreements having the above conditions unnecessarily broad. Nor have any instances been brought to my attention where an employment situation within Northern Telecom has been prevented or significantly impaired by the terms of our corporation’s employment agreement.

E. Inventor Recognition

The achievements of employees involved in technological activities are normally recognized through salary treatment commensurate with their contributions. This is no different than for their colleagues in other endeavors. But where inventions result from those activities, the question arises as to whether there should be special compensation.

This is a very touchy subject. On the one hand there are those who subscribe to the theory that technical employees are "hired to invent" and that inventive activity should simply be weighed along with other technical achievements in determining the employee's regular compensation. At the other end of the spectrum are the proponents of the view that employee inventors should be entitled to "a piece of the action." It is fairly certain at which ends of the spectrum the bulk of employees and employers are likely to be found. In between are various types of award schemes, the most common of which is the nominal cash award.

The "hired to invent" approach is more likely to be found in the research and development environment. This is the case at Northern Telecom's research and development subsidiary, BNR, where compensation is restricted to salaries and there is an annual dinner event at which significant contributors are recognized. Inventive activity, usually recognized in terms of patents, is one of the factors that is considered in determining an employee's contributions.

While scientists are attracted by money like everyone else, they are also concerned about making themselves known in the scientific community. This they do principally by delivering papers and publishing articles on their achievements. Patents are another vehicle for the inventor to make himself known. As noted by a recently retired member of Northern Telecom's patent staff in a paper on this subject written in 1976,¹⁸ it is often the case that, where a patent is important and attracts considerable attention, it is referred to by the name of the inventor even though the rights have been assigned to his employer in whose name the patent has been issued.

For inventors outside the research and development environment, nominal cash awards are more prevalent. This usually involves the payment of a fixed amount on the filing of an application for patent or on the issue of a patent, or both. The payment may be in cash or it may be in company stock.

I favor the nominal award approach in the operating company environment where the technical staff is concerned with practical problems requiring practical solutions, and inventive approaches are much less a part of their regular activities.

At Northern Telecom, we have three principal operating subsidiar-

¹⁸ Jelly, *The Employee Inventor: Employed to Invent - or Employed*, 42 PAT. AND TRADEMARK INST. OF CAN. BULL., 802, 806 (1976).

ies and each has a nominal award scheme for inventors. Originally, when Northern Telecom was Northern Electric, the nominal awards were token awards by today's standards. There was a cash payment of \$50 on filing and \$50 on issue of a patent. Those payments were subject to income tax and were divided in the case of multiple inventors. It was felt that those token awards did not provide enough incentive. So, we tried a scheme in which up to twenty patents would be selected annually on merit with an award of \$3000 going to the inventor in each case. The amount was subject to tax and was divided in cases of multiple inventors. That was an administrative nightmare: selecting the patents was a difficult and thankless task. The scheme was short-lived and we have returned to nominal awards in which each of the operating subsidiaries has established its own plan. While those plans differ somewhat, each involves the payment of a few hundred dollars cash, after tax, on the issuance of the first patent for an invention with the amount being multiplied up to two or three inventors. One plan also pays \$100 on filing the first application for a patent. These plans have been in place for several years now and so far I have not heard any complaints that one is better than another.

I would like to dispose of the "piece of the action" approach by saying that it would be counterproductive in our industry and in most industries. In the first place, it would be difficult, if not impossible, to establish a basis for a "piece of the action" where the real value of a patent may be in a cross-licensing situation where there may be no payments, or where any payment represents an overall balance of equities. In the second place, such a scheme could create a divisive environment by encouraging inventors to promote their own solutions when better ones exist or should be found, and by creating jealousies which would undermine the teamwork that is essential to the progressive enterprise.

F. Releases of Inventions

Releasing an employee from his obligation to assign an invention to his employer obviously must be done with care if at all. Most of the cases in which Northern Telecom employees request releases concern inventions which are clearly or arguably outside obligations to assign to the company. Understandably, the employee wants to be assured of his position, whether for his own peace of mind or whether he needs to be able to assure potential investors of his clear title to the invention.

In cases where there is a remote possibility that an invention could be of some interest to the corporation, the release would be conditional on the availability under any patent of a free, unrestricted license for the corporation to use the invention.

We have also had occasions where an employee assumes that the failure of the corporation to adopt his invention or to seek patent protection is an indication that the invention will be released to him even if it is

clearly within the corporation's field of business. In such cases, the employee must be made aware of the fact that the invention is the property of the corporation and that it is no more available than any of the corporation's other technology that it does not implement. In any event, a release may not be possible in cases where there are patent license agreements under which the corporation is obligated to make available rights to patents on inventions which it owns or controls at any time during the term of the license. Seldom is a release to an employee advisable because it sets a precedent which others may wish to follow. In a worst case scenario, an employee may see a dead end project as having personal advantages.

In summary, the situation in Canada regarding the relationship between employees and employers with respect to the ownership of technology and intellectual property generated by employees in the course of their employment seems to be generally accepted and relatively stable.

II. TECHNOLOGY ORIGINATED BY NON-EMPLOYEE INDIVIDUALS

The unsolicited suggestion is generally viewed by the high technology corporation as an occurrence having mixed blessings, to be tolerated if necessary and to be avoided if possible. On the one hand, the corporation can demonstrate a public interest by considering ideas from the outside and it might learn of a need that had escaped its notice. On the other hand, in our experience, most unsolicited ideas are either impracticable or economically unsound, yet the submitter often believes that the idea is revolutionary and will yield vast financial returns. Having submitted an idea, the submitter may perceive in the corporation's products the basis of his idea no matter how remote, with predictable reaction.

The problem is exacerbated from the point of view of the corporation by the fact that it may have little control over the initial events which can set the tone for the relationship with the submitter. Often the corporation is faced with receiving the idea without first having had the opportunity to advise the submitter as to its conditions for receiving suggestions. Some corporations, probably those which have had bad experiences or are beset with large numbers of unsolicited ideas, have attempted to reduce the exposure by establishing a clerical function to which all mail is forwarded that has the outward appearance of being unusual. Thus, any unsolicited suggestion can be detected and returned to the sender with the corporation's conditions for acceptance and with assurance that the suggestion has not been exposed to interested personnel.

Perhaps we have been fortunate at Northern Telecom in that we do not receive many unsolicited suggestions; we have not had any bad experiences nor even any close calls, as far as I am aware. We have found it adequate for the person (often the President or other senior executive) receiving an unsolicited suggestion to forward it to the Patents and

Licenses organization where it would be returned to the sender with a letter of explanation and our Information Disclosure Waiver form, setting out the conditions that must be satisfied.

Those conditions, nevertheless, are very strict in order to minimize any potential exposure. We have about 5000 scientists, engineers and other technologists in research and development, and many more engineers in the operating units. With these significant resources devoted to improving and advancing our technologies, we must be concerned with the possibility that the substance of an unsolicited suggestion which is commercially feasible could pose a threat to an internal development.

Our Information Disclosure Waiver consists of a number of specific conditions which can be summarized generally in four sections: confidentiality, compensation, contesting patents and miscellaneous provisions.

A. Confidentiality

The fundamental condition is that no confidential relationship is established by the receipt of an unsolicited suggestion and the corporation is not obliged to keep the submitted idea secret. This is absolutely essential because the idea may already be known to the corporation or available to it in the published literature. Nevertheless, our practice is to treat unsolicited suggestions with care, disclosing them only to those people needed to determine whether the ideas are of interest.

B. Compensation

The conditions specifically provide that the corporation does not agree to pay compensation for use of an unsolicited idea that has not been patented. The basis for this condition is that the corporation should not be financially obligated with respect to an idea, especially one in which it may have to invest considerable development, that could thereafter be emulated freely by anyone. At the same time, this condition recognizes the property right that a patent bestows and that compensation may be appropriate for access to such right.

C. Contesting Patents

While the corporation recognizes a patent right established by the submitter, the mere consideration of an idea should not of itself put the corporation in a position of being unable to challenge the validity or infringement of the patent.

D. Miscellaneous

There are several housekeeping conditions that provide that the corporation does not have to disclose any of its own information, give details of its consideration of the idea or reasons for its decision, nor return any of the materials submitted.

The conditions imposed on an outsider, particularly an uninformed individual, can be intimidating and often create an atmosphere of distrust. However, they are essential to protect the legal position of the corporation. Even so the corporation can be exposed to adverse publicity if the submitter decides to take his grievance, whether real or imagined, to the media.