COMPENSATION FOR THE EMPLOYEE INVENTOR

Posted on October 28, 2019

Categories: Insights, Publications

Most organizations that employ people to develop new products or processes have contracts of employment that specify that the employer is the owner of any intellectual property, including patents, which result from the efforts of its employee.

Where the business is located in Canada, this is perfectly adequate, but if the business has international operations, it is necessary to ensure that the procedures in place at any foreign locations conform to local law. In Germany, for instance, there is legislation which provides that a patentable invention is the property of the employee, and only by following the procedures under that legislation can the employer acquire ownership of the invention and any resulting patent. Thus, if a Canadian business has an operation in Germany, it needs to ensure that its policies conform to German law, and that it understands the consequences of any actions it takes in following the prescribed process to acquire ownership of the invention, including the amount it will be expected to pay to the employee inventor.

In the United Kingdom, the *Patents Act 1977* provides that the employer owns an invention made by any employee whose duties might reasonably be expected to result in the making of inventions. The catch is that the employee has a right to apply for the payment of compensation if she or he is able to establish that the patent has been of outstanding benefit to the employer. The Patents Act says that the award of compensation to the employee shall be such as will secure for the employee a fair share. The legislation contains provisions that limit the ability of the employer to alter the effect of the legislation by contract.

The Supreme Court of the United Kingdom recently considered the operation of this legislation in Shanks v. Unilever plc and others.[1] Professor Shanks was ultimately awarded £2,000,000 as reasonable compensation for his invention of a device that could, among other things, be used as a disposable sensor for use by diabetics to test their glucose levels. The invention was patented in multiple jurisdictions including Canada, the United States and Australia.

One point of interest in the case was that all UK-based research staff were employed by a subsidiary of the Unilever group that did not actually sell any products. The Supreme Court determined the legislation required it to consider the Unilever group as a whole, and not just the subsidiary that employed the research staff. A second point of interest is that since diabetes sensors were not core to any Unilever business, Unilever did little

to pursue commercialization. Unilever also did not consider licensing to be a key part of its business, and it devoted few resources to pursuing licenses. However, companies in the diabetes testing business realized the potential of the Shanks technology and they approached Unilever for licenses. A 2010 article in the Guardian estimated that worldwide sales of test kits based on this technology came to as much as 80 billion USD. In the end, the net benefit to the Unilever group from the Shanks patents was determined to be £24 million. This figure appears to include the benefit from all the patents, and not just the UK patent.

While the need to obtain competent local advice when setting up operations abroad is obvious, it is important to ensure that the scope of the advice will include the steps necessary to protect the business' intellectual property to the fullest extent possible. At least initially, this may result in different rules applying to different parts of the business depending upon its geographic location. Where possible, a business should try to harmonize compensation for its creative staff in order to encourage collaboration. A business should also consider developing a process for dealing with compensation issues that avoids litigation or other adversarial dispute resolution processes such as arbitration. When the other party is someone with whom the employer wishes to have a continuing relationship, such as a productive research scientist, using an adversarial process can have a negative impact on that person's performance or motivation. Examples can be found in some of the instances where arbitration has been used to fix player compensation in baseball. In the hearing, each side seeks to justify its position, and for the team that often leads to listing all the player's perceived shortcomings. Even when the team "wins" the arbitration, it may lose in the sense that the player and even its fans may think less of the team. The reaction of Yankees left-hander Jim Abbott, after he lost a 1993 arbitration case, illustrates the problem: "Why did they trade for me if that's what they think?

In dealing with Professor Shanks as it did, Unilever involved itself in litigation that took more than thirteen years to complete. It is almost certain that the £2,000,000 it will pay Professor Shanks is significantly less than its legal costs. It will also have to pay Professor Shanks' legal costs.

Psychologists have studied concepts of fairness in a variety of experiments. In one experiment, a capuchin monkey was rewarded with a piece of cucumber for performing a task. When a second capuchin monkey also received a piece of cucumber for the same task, all was well. However, when the second capuchin monkey received a grape (which capuchin monkeys value more highly than cucumber) instead of a piece of cucumber for the same task, the first monkey made its unhappiness clear.[2] Even if baseball players and scientists do not react in quite the same way as capuchin monkeys, it is important to the success of the organization that it does everything reasonably possible to ensure that people in the organization perceive that the organization is treating them fairly.

by Peter Wells and Sherif Abdel-kader

[1] Shanks v. Unilever plc and others, [2019] UKSC 45.
[2] The capuchin monkey fair play experiment.

A Cautionary Note

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.