Submission and Receipt of Ideas: Conflicting Rights

Joseph R. Teagno
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An idea has little or no value in the isolation of the conceiver's mind. Artistic creations and developments and improvements in products, machines, and methods are examples of such ideas. Value may be imparted to such an idea by communicating it to others who value it for its utilitarian or esthetic characteristics. Property rights arise from appreciation of such value by others, following communication.

In the communication of such ideas the submitter and receiver are ordinarily unfamiliar with the legal principles that apply. Usually, legal counsel and guidance are not sought until after the communication is made. At this point, this counsel is limited to evaluating the problems raised on either side because of the communication. The attorney finds himself in the classic position of trying to lock the door after the horse has been stolen.

Typical relations involved in the submission and receipt of ideas are: (1) employer and employee, where certain obligations are either implied in law or created in the conditions of employment; (2) recipient and outsider, where the respective obligations depend upon the manner of submission and receipt and the activities of either or both parties afterwards; or (3) two or more parties either formally or informally agree to work together jointly and the obligations are specified in the agreement between the parties. Since the latter situation is largely a matter of contract, this discussion will be confined primarily to a summary exploration of the problems arising in the other two types of relationships.

Employee Ideas

As a general rule, ideas conceived by the employee during the course of employment become the property of the employer if the employee was employed to develop such ideas, whether or not the employment contract required assignment of inventions.1

As might be expected, employers normally detail the terms of employment in these areas, and in many cases, require the

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employee to execute a formal agreement to abide by those terms. While some employers require all of their employees to sign agreements of this type, others require only certain classes of employees to execute these agreements. A tabulation of these practices as reported by Karl B. Lutz at The Practising Law Institute in New York in 1955 shows this:

<table>
<thead>
<tr>
<th>Item</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Companies reporting</td>
<td>809</td>
</tr>
<tr>
<td>2. Written Agreement required</td>
<td>457</td>
</tr>
<tr>
<td>3. What Employees Required to Sign?</td>
<td></td>
</tr>
<tr>
<td>(a) All Employees</td>
<td>165</td>
</tr>
<tr>
<td>(b) Technical and Salaried only</td>
<td>95</td>
</tr>
<tr>
<td>4. What Inventions are covered?</td>
<td></td>
</tr>
<tr>
<td>(a) All inventions</td>
<td>145</td>
</tr>
<tr>
<td>(b) Only those relating to the business of the company, present and prospective</td>
<td>330</td>
</tr>
<tr>
<td>5. Period of Time to be covered.</td>
<td></td>
</tr>
<tr>
<td>(a) The actual period of employment</td>
<td>317</td>
</tr>
<tr>
<td>(b) Actual employment plus a &quot;safety&quot; period after leaving employ</td>
<td>100</td>
</tr>
<tr>
<td>6. What Compensation should be provided?</td>
<td></td>
</tr>
<tr>
<td>(a) Pay only</td>
<td>196</td>
</tr>
<tr>
<td>(b) Bonus</td>
<td>73</td>
</tr>
<tr>
<td>(c) Share of income from licensing of others</td>
<td>32</td>
</tr>
</tbody>
</table>

The usual agreement provides for the assignment of all rights in the ideas. The employment is usually adequate consideration for the employee's obligation to assign. Many employers provide additional incentives in the form of gratuities designed to whet the employee's appetite for original and progressive thought. Although problems may arise during and after termination of employment, if a contract has been executed between the employer and employee these problems are usually easily resolved by the terms of the contract.2

As might be expected, problems arise with greater frequency between employees and employers if the employee has not executed an agreement. Thus, a shopworker who devises a scheme for producing a better product or a better method for producing a known product creates a situation that requires negotiation to delineate the rights and duties of himself and his employer.

2 Gas Tool Patents Corp. v. Mould, 133 F. 2d 815 (7th Cir. 1943); In re Kallus et al., 292 N. Y. 459 (1944); Patents and Licensing Corp. v. Olsen, 188 F. 2d 522 (3d Cir., 1930).
Reported decisions provide guideposts for these negotiations. One guidepost is the concept of the "shopright" which arises in favor of an employer if his facilities have been utilized by an employee in developing the idea. An employer is entitled to use, manufacture and sell an employee's idea or invention made at the employer’s expense and with the use of the employer’s materials, tools and facilities during the period of employment. 3

That such problems arise frequently is evidenced by the emphasis placed by most employers on suggestion plans and award systems designed to attract and retain ideas for the employer's benefit and at the same time designed to put the employees on notice of the prospective rights and duties that may arise.

Ordinarily, in the absence of an agreement, if an employee's activity is outside the scope of his employment and if he does not occupy any peculiar relationship of trust to the employer because of position or otherwise, he is entitled to all property rights in his idea. 4

A trust relation may arise where the employee occupies a position in management or otherwise controls or participates in the determination of policy. In this case he is not permitted to take advantage of that position. 5

Generally speaking, agreements relating to ideas developed in the course of employment cover all these ideas that may be developed. However, they may be modified to include only those ideas relating to the present and prospective business of the employer. The scope of the rights to be transferred by these agreements should be sufficiently broad to include foreign rights as well as domestic. It is also desirable for the employer to provide for an additional "safe" period following termination of employment. However, this period should not be so extended as to constitute an unreasonable restraint. 6

The majority of these agreements provide for compensation in the form of either awards or payment apportioned according to the value of the idea. Some employers have arrangements in which the employee shares in the income from the idea.

Generally, the following guideposts can be applied to employer-employee relations as to the submission and receipt of ideas:

1. It is entirely equitable to require an agreement between an employee and his employer relating to ideas conceived by the employee during the course of his employment.


5 Transparent Ruler Co. v. C-Thru Ruler Co., 54 U. S. P. Q. 345 (Conn. 1942).

6 2 Restatement of Contracts, § 615(b).
2. The agreement should preferably be imposed only upon classes of employees likely to develop new ideas.

3. The agreement should cover only ideas relating to the current business of the employer company.

4. The agreement should cover only ideas developed or conceived during the actual period of employment. If a safety period beyond the termination of employment is desirable, some form of additional compensation should be provided to offset any contention of unreasonable restraint on further employment of the employee.

5. Some adequate incentive should be provided to encourage employees to make and disclose their ideas.

6. Agreements should preferably be as simple, short, and concise as possible.

**Submission of Ideas by Outsiders**

Obligations arise in the case of ideas submitted by outsiders by virtue of the act and circumstances of the submission. For this reason, most companies exercise considerable caution in accepting such ideas. On the other hand, most companies do not want to risk overlooking the possibility of a highly profitable opportunity. Therefore, as a general rule, a company will welcome the submission of ideas by outsiders, provided that their submissions are made in accordance with previously established conditions. The creator of an idea has full possession of that idea, and under the common law owns it outright. He can practice or use the idea in secret and his ownership depends upon the maintenance of secrecy.

When the idea is disclosed or communicated to another, however, the creator's rights depend entirely upon the method of disclosure and the precautions taken in making such disclosure. If the creator avails himself of existing statutory modes of legal protection, such as the Patent Laws, he accepts such rights as are given to him by statute. However, apart from statutes, there is no residual property interest protectable by law in an idea communicated to third parties without any reservations. In such circumstances, there must be some reservation beyond the mere disclosure.\(^7\)

The general rule is not very helpful in resolving the usual situation, and the exceptions arise from the special relations between the parties and the circumstances under which the disclosure is made. Generally speaking, the submitter can predicate his right to compensation on the terms of an express or implied contract. The situation which depends on an implied promise causes the greatest trouble.

The implied obligation usually embodies two basic elements.

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First, an implied promise to keep the disclosure confidential if no compensatory arrangement is made with the discloser; and second, the agreement to compensate for use of the idea, which incidentally may be implied from the promise to keep the idea confidential, on the basis that the recipient should not be allowed to profit from his breach of confidence. The difficulty arises because more often than not there is no arrangement for confidential treatment and it becomes necessary for the law to imply such a relation from the circumstances. This consequence is not usually contemplated by the recipient.

From the standpoint of the recipient of the idea, the following tests can be applied to avoid the consequences of a charge of wrongful appropriation: The recipient should insist that the disclosure be concrete and specific and, preferably, fully developed or perfected. Vagueness and indefiniteness may be fatal because anything the recipient does to improve or perfect the idea may be claimed by the submitter. Some courts have held that novelty is not necessary so long as the idea is new to the recipient and the disclosure made in circumstances creating a confidential relation. However, there is some authority contra which requires novelty in the absence of an express contract to hold confidential and to compensate the submitter.

The idea need not be patentable, and indeed, it is possible for the claims of a patent covering the disclosed idea to be held invalid and yet have the submitter recover on the basis of a disclosure in confidence and wrongful appropriation without compensation to the submitter. However, the recipient is not ordinarily liable for use of a submitter’s idea which became public through use or publication through the act of the submitter before its use by the receiver. Similarly, where the recipient can show independent development of the idea before its submission by an outsider, the recipient is not obligated to compensate the submitter.

It has been held that even though an idea could be obtained by a recipient or by his competitors from inspection of a marketed product, if the actual information was first received from a submitter in confidence and then wrongfully appropriated, a right of recovery exists in favor of the submitter. It has also been held that it is of no significance that an idea had also been submitted and disclosed to other competing manufacturers at the time or before the time when it was disclosed to the recipient in question.

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9 Booth v. Stutz Motor Co., 56 F. 2d 962 (7th Cir., 1932).
10 Northup v. Reish, 200 F. 2d 924 (7th Cir., 1953).
The fact that the same information could have been discovered by experimentation leading from known factors to a predictable result does not necessarily destroy the validity of the discovery or eliminate liability for use of the idea in violation of a confidential disclosure.14

Where the idea involves an invention which can be the subject of a patent, it has been clearly held that a recipient in confidence who attempts to make unauthorized use of the invention is liable for such use during the period before the issuance of any patent thereon.15 Of course, the submitter can voluntarily waive any obligations that might otherwise be created in the recipient.16 The submitter can also agree to limit his rights to those accorded by any patent he may have obtained and, in such a case, in the absence of a patent there will be no basis for recovery.

There is also authority that if a disclosure is received in a manner which does not afford an opportunity to obtain the commitment of the submitter to protective conditions, as for example when the submission is made through the mail, the recipient can protect itself by returning the disclosure together with a statement of conditions under which it ordinarily would receive and accept submissions.17

Many companies follow a policy of inviting the submission of ideas from outsiders and instructing their employees most likely to receive such disclosures to forward them immediately to a single designated administrative person, and further providing that any such disclosures be kept segregated from all the company’s technical personnel until the ground rules have been agreed to by the outside submitter. The company then attempts to negotiate such ground rules by forwarding what amounts to an agreement in the form of a waiver together with an explanation of its policy and instructions for execution of the waiver. The waiver agreement should set forth all the conditions upon which the company will receive the disclosure and generally provides for no confidential relation arising by virtue of the submission and no commitment to maintain such relation. It also usually provides that no obligation arises to compensate the submitter, and that the recipient gets no rights in the idea until some mutually satisfactory arrangement is made for compensation in the event the company decides to make use of the idea. In most cases, these instructions inform the submitter that where possible he should rely on statutory rights made and provided in such cases.

There is a close kinship between ideas for product improvement and business promotion ideas, and similar legal principles apply in each case. Ordinarily, however, due to the more intangible and indefinite nature of advertising of business promotion ideas, and the fact that no statutory protection is available, the tendency to refuse the submission of such ideas is much greater.

With realization that secrets are interesting, the receiver of ideas should beware, for assuming the absence of an express contract, it can be deduced that an inventor can recover for the unauthorized use of his idea if the following general conditions are present:

1. Confidential information

   "A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. * * * The subject matter of a trade secret must be secret." 18

2. Disclosure by plaintiff to defendant.

3. Manner of disclosure must be such as to establish a confidential relation, express or implied, between the parties.

4. Confidential information must have been used by the defendant without permission from or compensation to the plaintiff.

18 4 Restatement of Torts § 757.