

Best Practices to Protect Your Intellectual Property When an Employee Leaves the Company

Labor & Employment Law Update

By Michael Bendel on August 29, 2023

The current employment market is placing incredible stress on businesses, many of which are struggling to find enough employees to simply cover shifts. Pay increases and higher recruiting costs, consequently, continue to rise. On top of these challenges, inflation and other market pressures have resulted in higher operating costs, compounding the impact to the bottom line.

While facing these challenging circumstances, the last thing an owner or manager needs is to find out that, when an employee departed, he or she took some part of the business's intellectual property with him or her. That's right – when employees transition out of your company, there is a real risk of them taking, accidentally or intentionally, your intellectual property (IP), that they could then use to help your competition.

To help protect your IP from such misappropriation, it is important for you to create, implement and monitor a proactive strategy to hopefully ensure your critical IP is legally protected from such misappropriation. However, and for such a strategy to succeed, you need to identify and understand your IP, together with the applicable rules of ownership and the documents necessary for proper protection. Listed below are a few best practices to ensure your IP is protected if, or when, your employees leave.

Understand Your Intellectual Property

It's hard to protect your company's IP if you do not understand what it is. Intellectual property includes patents, trademarks, copyrights, and trade secrets. Every company has at least one of these protectible types of IP and should have a process for defining its IP and a process for educating its employees about it. Further, because IP touches all areas of a business, every department should have a clearly defined list of IP-related responsibilities and watch-outs. The amount of IP detail shared with an employee should vary based on his or her job responsibilities. For example, a person in the marketing team of a manufacturing company does not need to know the particulars of a trade secret that details how a product is manufactured. However, that marketing team member does need to

understand how the IP should be correctly identified in collateral materials and on the company website. In this example, that marketing team member also needs to make sure website terms and conditions include IP provisions. As another example, the IT team should have policies and procedures in place to control the input and output of sensitive data, especially when it includes confidential IP.

Understand the Rules of Ownership

Generally, the creator or originator of an idea, work or novel information is presumed to own it. The ownership rules change, however, based on the specific type of IP and various related circumstances. Such circumstances can include whether the IP was created under a “work for hire” versus a “hired to invent” relationship, whether the IP was based on existing company information or new company information, and whether the creator was an employee or an independent contractor. Because of these differing situations and ambiguities that can arise, it is important that your pertinent employment and other agreements have clear provisions regarding IP ownership.

The remote work world has created a new set of challenges for IP ownership because some employees are creating, designing, or inventing IP on the employee’s own resources (for example, on their own technology, at their own house, and over their own Wi-Fi). It is therefore critical to define what happens to the IP ownership when the IP is created in this way, and also when the employment has ended.

Put it in Writing

To best protect your IP, internal policies and procedures for identifying, controlling, and training on IP need to be in place, and you should use well-drafted IP documents. An IP attorney can assist in preparing such documents, including applications for registration (for registered IP) and non-disclosure agreements (for restricting disclosure of confidential and sensitive information). An employment attorney can work with the IP attorney to prepare a comprehensive employment agreement that includes the requisite IP-protective clauses.

Registered intellectual property is subject to an application and is filed with a legal authority, such as the United States Patent and Trademark Office (USPTO) or the United States Copyright Office. Non-Disclosure Agreements (NDAs) define the use of and restrictions on confidential and sensitive information between two parties. NDAs are a great tool to allow companies to share intellectual property when necessary without inadvertently dedicating it to the public. But, to be enforceable, NDAs must have well-drafted key terms.

Summary

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IP significantly impacts a company's competitive advantage, and it should be treated like the valuable asset it is. Without the proper policies, procedures, agreements, and registrations in place, the intangible assets that are your company's differentiator could walk out the door with a departing employee. However, by acting proactively, you can avoid such a situation and keep your business moving forward with its IP intact and not at risk of compromise.

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