

# Managing Intellectual Property Assets for Startups

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**Startups should be concerned and protect their intellectual property assets from being hijacked, not just by competitors, but also by their own employees and collaborators.**

**R**unning a startup is tough. Often, preoccupation with managing urgent, day-to-day concerns means that the protection of a startup's valuable intellectual property (IP) assets takes a backseat. (See box on "Type of IP Assets".)

Given the potential of IP assets, especially when the startup becomes successful and scales, it should pay attention to them from the beginning and worry about their misappropriation by three parties: employees, collaborators and competitors.

## Employees

A successful startup will hire more and more people as its business grows. Such personnel are often given access to the startup's IP assets. While it is important to establish a culture of trust in a small but growing startup, there are serious risks in

giving employees unfettered access to the startup's confidential data (e.g. through computer systems).

Easily accessible data, including nascent ideas, financial details and customer lists are vulnerable to theft. Safeguards to prevent theft include strengthening IT security measures, allowing access to confidential information on a need-to-know basis only, and immediately terminating ex-employees' access rights to the startup's systems and corporate accounts.

Another risk relates to the ownership of IP created by employees. Whilst the general position is that IP rights created during the course of employment belong to the employer, this is subject to any express or implied agreements between startup and employee.



## Type of IP Assets

Type of IP	What It Does	Examples
Patents	Protect new inventions	Incandescent light bulb
Trademarks	Protect the role of a mark as a badge of origin	"Coca-Cola" trademark
Confidential Information	Keep your secrets, including trade secrets, proprietary	Secret ingredients for KFC's original recipe
Copyright	Protect expressions of ideas in tangible forms	Copyright in the Harry Potter books and films
Registered Designs	Protect features of shape, configuration, pattern or ornament applied to or embodied in an article by any industrial process	Herman Miller's iconic Aeron chair

The startup should also be aware of “commissioning situations”. Currently, a startup that pays for the creation of specified works (namely, photographs, portraits, engravings, sound recordings or cinematograph films) automatically has first ownership of the copyright.

However, this position may change as the Ministry of Law has proposed (in an August 2016 public consultation paper for the Copyright Act) to change the rule in “commissioning situations” for photos, portraits and engravings so that the *creators* of such works will have first ownership of the copyright. If the amendments come into force, employers will need to negotiate with the creators to own the copyright in those works.

A solution is to ensure a clear delineation of the roles, rights and obligations of the startup and its employees, as well as that of independent contractors through suitable contracts. In this regard, startups are cautioned against wholesale “recycling” of employment contracts obtained from third parties (such as fellow entrepreneurs) or from using generic employment contracts found online). They may contain terms unsuitable to the startup, or may be unenforceable.

### **Collaborators**

Startups will collaborate with third parties, including financiers, service providers and manufacturers.

There is a potential outflow of IP to these third parties that needs to be managed. Financiers will require information on the value propositions of a startup, which can include specifications and commercialisation plans for new, unpatented inventions. Service providers may require access to the startup’s confidential information and computer systems. Manufacturers may require copies of the startup’s designs and schematics for its products.

If there are no safeguards in place, such information may be misappropriated by these

third parties for sale or for their own use, or by unscrupulous personnel working for these parties.

To ameliorate these risks, startups should enter into non-disclosure agreements and other relevant contracts with these third parties that clarify the legal rights and provide an avenue for enforcement.

If the counterparty supplies a contract for signing, startups should have their own lawyers review them.

### **Competitors**

Startups should, of course, be wary of competitors infringing on its IP.

Perhaps the most common is the “hijacking” of trademarks. Trademarks allow the public to associate a startup with its goods and services. In the short term, an infringement of a trademark would be lost revenue. In the long term, the startup may lose goodwill as a result of copycat inferior products.

The answer here is to register the trademark – and in all the countries the startup operates or intends to operate in the future. Enforcing a registered trademark is simpler and more cost effective than pursuing an action on an unregistered one.

### **Starting early**

The importance of navigating these potential pitfalls cannot be overstated. Dealings with employees, collaborators and competitors are generally managed more cost-effectively at an early stage.

If overlooked at that time, the startup may have to invest considerable time and resources in costly litigation to enforce its rights – if any have accrued at all. ■