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# qLegal Toolkit

## Working with Others: Important Considerations

This toolkit considers some basic aspects of UK employment and intellectual property (IP) law, including issues relating to the employer/employee and employer/contractor relationship. The toolkit highlights some important matters to be taken into account by start-ups in hiring employees or assigning work to contractors and managing their IP portfolio.

### 1. Employment and intellectual property - What should start-ups do to ensure that the IP they and their employees develop is part of their growing business?

#### **Start-up companies should be proactive in developing and protecting their intellectual property (IP)**

Ownership of intellectual property (IP) is absolutely essential for a company. A company must own or have a license for what it uses, sells, distributes, or sub-licenses. This ensures that intellectual property rights are not infringed which can lead to costly litigation, hefty damages, expensive licensing agreements, loss of prospective investors and business failure.

Many start-up businesses will rely on these IP rights, including trademarks (see qLegal toolkit “Trademarks in UK”)<sup>1</sup>, patents (see qLegal toolkit “Patent explained”)<sup>2</sup>, copyright, design rights and trade secrets. Start-ups must ensure the IP they develop remains part of their growing business and take steps to protect the business’ creations and work through contractual provisions and any applicable IP registrations. Developing a tailored and robust IP strategy can be crucial for the success of the business.

#### **IP is a business asset and has commercial value**

IP is very important and should be protected as it provides a real competitive advantage; increasing the value of the business and creating a potential revenue stream through licensing and related agreements. IP is an important part of the balance sheet and special care must be taken to protect it, especially if other employees were involved in the creation or development, to avoid ownership disputes over the resulting IP.

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1 <http://www.qlegal.qmul.ac.uk/docs/125855.pdf>

2 <http://www.qlegal.qmul.ac.uk/docs/123220.pdf>

### **Timing is essential**

The right timing must be observed and in order to guarantee a competitive market position start-ups must make early and proactive efforts in relation to their IP portfolio. Before goods or services are marketed, steps should be taken to identify IP assets (copyrights, patentable inventions, trademarks, designs or trade secrets) and secure ownership with the right registrations and/or contractual arrangements.

### **What about confidential information?**

Start-ups usually rely on a team of people, including employees, contractors and investors. Any of these people may help create IP or have access to IP and other intangible assets; so it is vital to establish clear rules about the ownership of such assets. Non-disclosure agreements (NDAs)<sup>3</sup>, proprietary rights agreements and employment contracts are important instruments for start-ups, as these agreements can clearly settle the rights of ownership in the intangible assets and prevent the use or disclosure of confidential information. You should consider entering into such agreements with anyone who has access to your intangible assets, including whether to extend such agreements beyond the end of the employment/contractual relationship as further explained below. Moreover, all trade secrets and other relevant information should be marked as “confidential”, with physical and digital barriers to the access.

## **2. The difference between contractor and employee**

In defining the roles of a contractor and an employee, it is best going back to basics and discovering the specific roles these individuals play. An employee works under the direction and control of another, and is someone who usually works under an employment contract; they would receive a wage or salary in return for the services they provide. An employment contract governs relations between the employee and employer. Employees receive certain rights that would be clearly defined in the employment contract at the start of their employment, including statutory sick pay, maternity and paternity leave and minimum notice periods.

A contractor on the other hand deals with an employer to do a certain piece of work. The contractual relationship is flexible and provides benefits to both the worker and the employer, for example it may be more cost effective to hire a contractor than make someone your employee. More examples of their benefits are given in point 4.

However, contractors and employees have to be treated as separate legal persons since employees derive more protection under employment legislation. Employment law does not cover self-employed contractors in general as they are technically their own boss; they are contracted to perform a specific task which in this instance is governed by a “contract for services”.

## **3. Employer requirements – advantages and disadvantages of being an employer**

The duties and responsibilities of an employer are varied and mostly relate to the contract of employment agreed with the employee. Generally the employee is entitled to a wide range of statutory protection since the degree of

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3 <http://www.qlegal.qmul.ac.uk/docs/125567.pdf>

control over his work is more substantial than in the case of a contractor. However, there are some provisions which apply to both the categories and which the employer has to consider, such as non-discrimination and health and safety regulation.

Being an employer can in many aspects be a great advantage. It allows you more control over the activity undertaken, to set your own pace and choose the people you believe to be best for the job. It also normally means standing in a position of greater contractual strength, which, as a consequence, leads to more favourable employment contracts clauses because of the bargaining power. However, it must also be kept in mind that there are some fixed statutory terms and protections which cannot be amended such as sick pay and maternity/paternity leave and pay.

Being an employer also entails a wide range of responsibilities and duties, both towards employees and external parties. A major concern for employers can be vicarious liability, which is a strict form of liability which holds an employer responsible for the negligent acts or omissions of employees. Furthermore, an employer must observe health and safety regulations, consider any complaints or grievances raised by employees and ensure that employees are fully aware of rights under their contract.

#### **4. Contractor Requirements – advantages and disadvantages of using contractors.**

A contract with an independent contractor should include a detailed description of the services to be performed or deliverables to be provided, deadlines, payment schedules and the transfer or assignment of any intellectual property rights. In complex cases you may need legal advice on drafting a contract. If contractual terms are ambiguous a court may interpret the wording against the person who drafted the contract. It is important that you understand and agree all the contract terms, because the terms will be used to decide the outcome of any disputes.

Using contractors can provide flexibility, as you can quickly engage people with the necessary skills to undertake specific tasks. You will still need to comply with anti-discrimination legislation, but you will not have the more comprehensive tax and other responsibilities of an employer. Importantly, you will have limited control over how the contractor delivers the service and you cannot supervise a contractor in the same way as an employee. Also, contractors may not have the same level of commitment to your company as an employee.

Decisions about using a contractor or employee should be guided by the nature of the function to be performed. Disputes over a person's status can ultimately be litigated in court. The court will look at the nature of the underlying relationship, so even if it is easier or more economic for the parties to agree to an independent contractor arrangement, this will not be effective if the courts consider the real relationship to be that of employer and employee. This can have serious consequences, as the underlying contract can be found void which can lead to further implications.

#### **5. Using employment contracts - their importance**

##### **What is a contract of employment?**

A contract of employment is an implied or express agreement which regulates the relationship between an employer and an employee and their mutual rights and obligations. It is legally binding on both parties, so it is essential that a

start-up considers the provisions of such a document carefully and seeks expert legal advice, if necessary. An employer may incorporate, by reference in the contract, other documents such as a staff handbook, code of conduct or grievance procedure. These documents can set out disciplinary rules and other company policies to be followed by workers. The contract should state clearly what documents or parts of documents will be incorporated to give them contractual status and avoid any potential uncertainty or disputes.

A contract of employment may be oral or written (but must be in writing if it concerns an apprenticeship). If a contract of employment lasts longer than a month the employer is required by law to give a written statement of employment to the employee. The written statement sets out the main terms and conditions agreed by the two parties (pay, holiday entitlement, sick pay, pension scheme, place of work etc.), but does not replace the contract: only the latter is legally binding and fully determines what provisions have been agreed by the parties.

**Important terms to be considered by an employer (it must be noted that these terms are not extensive and will depend on the start-up).**

- The employee's job title and a description of the related role and duties.
- IP clauses. Unless the employer and the employee have agreed to the contrary, the general rule is that the employer is the owner of all intellectual property rights on the inventions and creations carried out by his/her employee in the course of employment. However, it is advisable to specify by contract what is deemed to be invented or created by the employee in the course of the employment and therefore what falls under the employer's entitlement. Wording of the contract and detailed clauses are fundamental to prevent or limit future uncertainties and costly disputes concerning the entitlement of IP rights. On the contrary, in case of a contractor who works under a contract for service (as opposed to the employee's contract of service), the general rule is that he/she retains IP rights on his/her work. In other words, IP rights on a commissioned work do not vest in the commissioner, unless the contractor has transferred ownership of these rights to the commissioner by way of a written assignment.
- Other employee obligations, such as the duty of confidence. This obligation is part of the general "duty of fidelity" by which an employee must act with good faith in the interests of the employer.
- Clauses to require that an ex-employee should refrain from working for competitors and/or setting up his/her own business for a limited period (non-competition clause).
- Other clauses such as the length of the contract if it is not permanent and notice period for termination of the contract (otherwise statutory rules apply).



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