

Neil R. Luebke's Commentary on "Who Can Change Proprietary Source Code"

Commentary On
Who Can Change Proprietary Source Code

The general problem area raised by this case is ownership and use of technical knowledge. One question might be phrased, "What is the right of the individual engineer to specific items of technical knowledge which he/she came to possess because of and while in the employ of a firm?" However, there are additional, more broadly ranging, questions such as, "How, through communicating or (mis)using technical knowledge gained in a previous employment, might an engineer cause a current employer considerable trouble and expense?" and "To what extent is an engineer responsible for the firm's use of his/her technical knowledge?" Particular cases dealing with intellectual property, as in the present instance, are often complicated by a number of legal considerations. In any event, Derek would be well-advised to seek the counsel of his firm's lawyers before proceeding and to urge his superiors to do the same.

There are at least two major gaps in the case description that must be filled before concrete, detailed advice could be given to Derek. One is the matter of ownership, and the particular type of ownership, of the innovative software system. The other is whether Derek's new firm has a license to use the original software system. Regarding the first, the case description does not explicitly state--but strongly suggests--that the software system belongs to Derek's former firm. It is said to be the commercial "Lifeblood" of the firm, Derek and other developed it while employed by the firm (presumably as part of their jobs), and Horace's remark "That system is really the property of your previous employer" is not challenged but apparently accepted by Derek. The fact that Derek did not sign an explicit agreement with his former employer may be immaterial. The former employer might have a company policy governing ownership. [My university has a detailed policy governing the ownership of patents and copyrights developed by university employees. No employee "signs" the policy and it went into effect, valid from its adoption date, years after I first joined the university faculty.] Then, too, there are legal precedents

regarding design work done by employees while under hire to do such work. Derek's assumption that his helping to design the system gives him some sort of "right" to use it or change it may be dangerously flawed. It is remotely possible that Derek had and retains some sort of ownership right in the system, but there is nothing positive in the case description to suggest so.

There is also the question of Derek's current firm's license to use the software system, for they obviously do not own the original version. The case description suggests that the current firm has not purchased a license to use the original system, but wants Derek to replicate the whole system, with a few modifications, for extensive company use and (claimed) ownership. Such a move would seem to be a violation of copyright by the firm. It is not clear that Derek himself has a license to use the system--he may be "pirating" it. There are situations in which a company buys a license to use a software system and, as part of the purchase, also buys access to and use of the "source code" for the system, legally permitting the company to modify the system for its own needs. If this were the case--but there is nothing of the sort stated or implied in the description--there would be no problem in introducing the modification and the firm is fortunate to have a person with Derek's experience. (There may still be a problem with "owning" the modified system.) More commonly, the license to use a system prohibits the licensee from modifying the system (which would at least void the warranty) or distributing it to other parties; the software supplier retains the right to service, updates, or otherwise control modifications in the system. The user's rights and their limits are usually spelled out in legal detail in the purchase agreement and warranty.

As both Derek and his new employers could be exposed to a major lawsuit, Derek should insist that his superiors obtain legal counsel before the situation develops further. Derek may already be guilty of using proprietary information.

[Perhaps a few background remarks are in order here concerning the topics of patents and copyrights, trade secrets, and agreements that might be signed regarding maintenance of confidentiality or other intellectual property rights. The United States Constitution, Article I, Section 8, Clause 8. There the Constitution provides that "Congress shall have the power . . . to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries." The United States was one of the first countries to develop a patent and copyright system. Since the country was founded at the beginning of the modern industrial revolution, there was a concern

on the part of the Constitution writers that creative individuals be protected and encouraged in their efforts to develop inventions or to produce artistically. The federal Patent Act grants a limited monopoly to a patent-holding inventor that gives him a 17-year right to exclude others from using, making, or selling his invention in the United States. Once a patent is applied for, it becomes a form of personal property; it may be bought, sold, traded, leased, licensed for the use of others, and so on. Not every invention is patentable; it has to meet certain standards, usually standards of novelty, utility, inventiveness, and what is sometimes called subject matter, that is, there are certain things which cannot be patented, such as mathematical formulas or managerial techniques, whereas other things--such as actual devices, designs for processes, and chemical formulas--may be patented. A copyright is similar to a patent in that it grants an exclusive right to the holder to publish, sell, etc., plays, music, textbooks, photographs, and other such material. The extent of protection is usually for longer for a copyright than for a patent. To infringe a copyright or to manufacture illegally, say, a patented device would be grounds for a lawsuit by the owner of the patent or the copyright against those who violated the right.

There is another category of protected information usually called "confidential information," "proprietary information," or more commonly "trade secrets." For a variety of reasons, companies may prefer to use the trade secret route to protect information, designs, formulas, and possibly even computer programs developed within their firms. One reason is the expense associated with patenting. Another reason has to do with the fact that a patented or copyrighted item becomes a matter of public record and hence is publicly accessible. While at the time of this writing there is no national trade secret law, there are a number of statutes on the books of various states and a large number of court decisions protecting the rights of a firm to maintain its own trade secrets. Companies have successfully sued each other for trade secret theft. (Surely they were never parties in signing any ownership agreement!) One process by which trade secret theft sometimes occurs is the hiring of an employee from another firm and then putting that employee in a position to use specialized knowledge obtained from the previous firm. A trade secret can be any specific piece of information--a list of customers, a mathematical formula, a chemical formula, a process design, and so on--that gives the company holding it a competitive advantage in the marketplace and has been identified or treated by the company as confidential. Generalized skills that an employee may pick up on the job, such as a skill in using certain programming techniques or a skill in the

conducting some type of chemical analysis, would not be regarded as trade secrets but rather as general knowledge that becomes part of the employee's overall ability.

In order to help the company in protecting trade secrets (an activity that is extremely important in more technological firms) as well as in alerting employees to policies governing patents and copyrights, employees are often requested to read and sign an employment agreement. These agreements explain the company's policy regarding patents, copyrights, and trade secrets and usually call attention to the employee's obligation to continue to maintain confidentiality indefinitely, not just during the time of employments with the company.]

Let us suppose that the company, at Derek's insistence, does carry out negotiations with the smaller company producing the original software. Derek's ethical commitments to his previous and his current employers would not be violated. He will have kept faith with his previous employer, and he cannot be charged with knowingly doing anything to damage his current employer. His current firm may be able to work out some kind of relationship with the previous employer and possibly even come to a business arrangement for the marketing of the adaptation for even more commercial profit.

On the other hand, let us suppose that the company does not talk with the supplier of the software and insists on going ahead with or without Derek in making the adaptations company-wide. Let us also suppose, as is likely to be the case, that at least someone in Derek's previous company finds out about the new use of the software system. Derek's new employer, as well as possibly Derek himself, could be confronted by a lawsuit having to do with the infringement of copyright. Even if the lawsuit is not successful, the legal action could prove costly for Derek's employer. It certainly might besmirch his reputation, both within the company and outside of it. Derek should at least do what he can to urge his superiors to seek legal advice in this matter. His professional responsibilities to his current employer as well as to his previous employer would call for no less. If his superiors are too pig-headed to seek and listen to legal counsel on this matter, Derek would probably be better off working for a more enlightened firm--at least one that would not ask him to act illegally.