ESSENTIAL INTELLECTUAL PROPERTY CLAUSES
IN EMPLOYMENT CONTRACTS

Introduction

Intellectual property rights are valuable business assets which businesses rely on to gain and maintain a competitive edge in the marketplace. They have the ability to provide high returns if they are leveraged upon and adequately protected. Examples of these assets include list of customers, sales tactics, business concepts, trade secrets, confidential information, invented or improved products, service methods or processes and product designs amongst others. They may be protected as trade secrets and business confidential information, designs, trademarks, copyrights and patent rights if they fulfil the requirements for each category of IP protection. These assets do not only require protection from the public or competitors but also employees who have access to and/or are involved in the creation of the assets in the course of employment. Exposing these assets to employees in the workplace without adequately implementing protective measures pose risks of intellectual property theft and infringement, which may result in low financial returns for a business and cause it to lose its competitive edge in the marketplace.

A major strategy for protecting these assets in the workplace is through the provision of intellectual property rights clauses in employment contracts. Intellectual property rights clauses are useful tools as they govern the relationship between an employer and employee in relation to the intellectual property assets of the employer and are

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Some of the essential intellectual property clauses include:

**Ownership and Assignment Clause**

Employment contracts should contain clauses on ownership of intellectual property created by an employee in the course of his employment, to prevent disputes and possible theft and infringement, which may have a negative impact on the business of the employer. According to the Nigerian Copyright Act (NCA), where a contract for employment does not stipulate the owner of the copyright in a work, the employee is assumed and stipulated in law to be the owner. However, for literary, artistic or musical works made by an author in the course of his employment (by the proprietor of a newspaper, magazine or similar periodical, which is made for publication in a newspaper, magazine or similar periodical), the proprietor shall in the absence of any agreement to the contrary, be the first owner of copyright. Ownership of copyrights in these cases may be determined by an employment contract and an employer may either restate the provision of the law in relation to ownership of these rights or provide for the transfer of the rights based on the terms agreed by the parties. This clause may only be used to transfer or license economic rights and cannot be used to assign or licence the moral rights in a copyrighted work as they are exclusive to the author and inalienable.

For designs and patents, the Patents and Designs Act (PDA) stipulate that inventions or designs made in the course of employment vest in the employer, and does not specifically provide for the use of contracts to determine or transfer ownership of an invention or design. In practice, however, the actual/true inventor (in most cases the employee) would effect an assignment of his rights to the employer to back-up the application for the issuance of letters Patent. Although the Act specifically provides that ownership rights belong to the employer, it may also be necessary to restate this position in an employment contract to inform the employee of the employer’s right to the inventions and designs.

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4 Unless it is established in evidence that a party was fraudulently led into an agreement, parties are bound by the written and express terms of their contract. See Chidoka v. First Finance Co. Ltd (2012) LPELR-9343 (SC).
6 Section 10(3) NCA.
7 Section 12(1) and (2) NCA.
9 The employee/inventor is also entitled to have his/her name listed as such in the patent application. See section 2(2) Patents and Designs Act Cap P2 Laws of the Federation of Nigeria 2004.
To prevent disputes concerning whether a work was created during the course of the employment, it is important to clearly define the scope of the employee's job description in the contract. This will help in determining who is entitled to ownership of intellectual property rights as any work made outside the scope of the employee's job description belongs to the employee. Section 2(4)(a) of the PDA stipulates that where an employee whose contract of employment does not require him to exercise any inventive activity creates an invention using the resources of his employer has put at his disposal, or created an invention which is of exceptional importance, he will be entitled to fair remuneration taking into account his salary and the importance of the invention and the remuneration cannot be modified by contract.

Confidentiality and Non-disclosure Clause

Employment contracts should also provide confidentiality and non-disclosure clauses in order to protect trade secrets and confidential information of the employer which the employee may have access to or use in the course of employment. This is important to prevent risks of both intentional and unintentional disclosures by the employee. The relevance of this clause cannot be overemphasized as trade secrets are of significant value and loses its value and protection as soon as it is known to the public. It has also been said that businesses that successfully protect their trade secrets also strengthen their other intellectual property assets. For instance, the Coca Cola recipe and Google search algorithm are of substantial value and these companies recognized that protecting their trade secrets can help maintain their competitive edge in the marketplace.

This clause requires that an employee should not disclose the trade secret and confidential information of the employer or other third party which is in the custody of

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11 In the recent decision of Shanks (Appellant) v Unilever Plc. & others [2019] UKSC 45, Professor Shanks was employed by Unilever UK Central Resources Ltd ("CRL"). He applied for compensation under section 40 of the UK Patents Act 1977 on the basis that the Shanks patents had been of outstanding benefit to CRL and that he was entitled to a fair share of that benefit. The Supreme Court and the court held that he was entitled to compensation and in deciding that Professor Shanks's invention was of "outstanding benefit" to his employer, the Supreme Court considered that where a group company operates a research facility for the benefit of the whole group, the focus of the enquiry into whether any inventions made are of outstanding benefit to the company must take into account the benefit of the invention to the group compared with the benefit derived by the group from other inventions arising from the research carried out by the company.


14 WIPO Magazine supra note 11.
the employer.\textsuperscript{15} The scope and definition of trade secrets and confidential information should also be defined in the contract including the kind of confidential information the employee will have access to and or be required to use and other intellectual property and business information that should not be disclosed by the employee.\textsuperscript{16}

**Non-Compete Clause**

Non-compete clauses are also essential as they extend the non-disclosure of trade secrets by an employee beyond the termination of employment. This clause stipulates the duty of an employee not to compete with the employer, organize a competing business and lure fellow employees to leave the employer in order to undertake employment with the employer’s competitor(s). They restrict the use of trade secrets by employees after their employment for a certain period and within a specified geographical area, as an ex-employee who has knowledge of this information may be an attractive asset to a competitor.\textsuperscript{17}

Generally, these clauses are unenforceable in common law, except it is reasonable in duration, geographical limits and the scope of protection of the trade secret.\textsuperscript{18} In some jurisdictions they are void outrightly or voidable at the instance of the employee as being in restraint of trade and the freedom of an ex-employee to seek an employment or freely practice a profession.\textsuperscript{19} However, in other jurisdictions it is enforceable if it is reasonable based on time, geographical limits, and limited in scope to the protection of the alleged trade secret.\textsuperscript{20}

One of the earliest reported English case on this clause is the case of *Dyer*.\textsuperscript{21} In this case, a practitioner signed a non-compete agreement with his apprentice to forgo the latter’s debt if he does not engage in his trade in the same city for a period of six months after the cessation of his apprenticeship. The Court nullified the clause for

\textsuperscript{15} Ibid.
\textsuperscript{16} See generally, John Onyido, *The Role of Trade Secrets in the Protection of IP Rights*, The Gravitas Review of Business & Property Law, Vol. 6, No. 3, 2015. “The need to maintain secrecy should not be confused with the general perception of keeping secret in every and all circumstances. In the course of doing business, there will invariably be a need to reveal or disclose the valuable information to those who have a need to know in order to work or practice that invention or patent.” Ibid at p. 57.
\textsuperscript{19} Ibid.
\textsuperscript{20} Ibid.
\textsuperscript{21} Y.B. Mich. 2 Hen. 5, fol. 5, pl. 26 (1414).
being contrary to public policy. However, in the latter case of *Mitchel v. Reynolds*, the Court stated that involuntary restrictive covenant in restraint of trade are void while voluntary covenants should be allowed provided they are specific based on the interest of the employer or former business owner to be protected, the reasonableness, scope, time and place of the covenant. In *PepsiCo Inc. v. Redmond* these clauses were applied to prevent an employee from working with a competitor. The court held in favour of PepsiCo on the ground that due to the position offered by Quaker and Redmond’s access to sensitive marketing and distribution strategies by virtue of his managerial position at PepsiCo, Redmond would have inevitably disclosed PepsiCo’s trade secrets and confidential information if he was allowed to accept the offer of employment immediately.

In Nigeria, the court in *Infinity Tyres Limited v. Mr. San Jay Kumar & 3 Ors.*, stated that “…generally all covenants in restraint of trade are prima facie unenforceable in common law. They are enforceable only if they are reasonable with reference to the interest of the parties concerned and of the public.” The court also held that “whether or not a covenant in restraint of trade is reasonable is a question of fact and depends on the circumstances of each case; and reasonability is determined by reference to the geographical area of coverage, the economic activity covered and the duration of the applicability of the clause.” In this case the court held that the area of geographic coverage of Nigeria and the duration of applicability of one year are reasonable terms. However, the economic activity which covered “any other company in Nigeria” was too wide and unreasonable.

In *Studio Press Plc v Kadoor & Anor.*, the Court upheld the agreement of parties which states that “For a period of two years immediately following the termination for whatever reason of this agreement, the employee agrees not to work in the same or similar capacity in any company whose business is the same or similar to that of the employer in Nigeria except with the prior written permission of the employer to do so, which permission will not be unreasonably withheld though it will normally be withheld if the employee intends to work in the same or similar business to that carried out by the company.”

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22 ER 347 (Queen’s Bench 1711).
23 54 F.3d 1262 (7th Cir. 1995).
26 NICN/LA/144/2015.
27 Yekini & Tanimola, supra note 14.
Non-compete clauses have to be drafted appropriately by specifying the period, the economic activity covered and the duration of the applicability of the clause which must be reasonable and not unnecessarily too general as Nigerian courts will not enforce these clauses where they do not stipulate the information mentioned above and are not reasonable to protect the business interest of the employer.\textsuperscript{28}

**Conclusion**

Most businesses are sustained by their intellectual property rights which should be guarded by the employer to maintain their relevance in their respective industries. Having intellectual property clauses in employment contracts are vital as they inform an employee of the obligations and rights in relation to both the intellectual property of the employer and the ones the employee will create in the course of employment. It is a settled principle of law that parties are bound by their contract\textsuperscript{29} and where the employee breaches any of these obligations an employer may seek remedies from the court including injunctions to restrict further breach of contract and or infringement of their intellectual property rights.

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For further information on this article and area of law, please contact

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\textsuperscript{28} Ibid.

\textsuperscript{29} Larmie v. D.P.M.S. Ltd. (2005) 18 NWLR (Pt.958) 438