CASE NOTE: *VICTORIA UNIVERSITY OF TECHNOLOGY V WILSON & ORS*

The Supreme Court of Victoria Tries Some Socio-legal Analysis in Reconceptualising the Role of Academics

By Gavin Moodie[*]

In a recent decision, *Victoria University of Technology v Wilson & Ors*, the Supreme Court of Victoria, Australia decided against two academic defendants in a case brought by their university employer over the ownership of intellectual property. The case turned on whether the academics invented the property within the scope of their employment, and is interesting due to the court's finding that the comparatively recent commercialisation of Australian universities had reconstructed the nature of academic work. The court held that a full professor and a senior lecturer — a middle-level academic grade in Australian universities — had a fiduciary duty to account to their employer university for gains from business opportunities they learnt of in the course of their employment.

Introduction

Nettle J, sitting alone in the Supreme Court of Victoria, took account of recent trends in society to reconceptualise the role of academics in *Victoria University of Technology v Wilson & Ors*.[1] Nettle J determined what was invented 'within the scope of employment', and therefore owned by the university according to general principles which, His Honour found, left considerable discretion to the senior academic defendant, Professor Ken Wilson. A concomitant of that discretion was a fiduciary duty which His Honour found Professor Wilson and his colleague Dr Feaver breached.

Interestingly, Nettle J defined academics' scope of employment not by the activities of their university as a whole, but by the activities of the unit in which they worked. This leaves open the possibility of segmenting and defining academics' scope of employment differently for teaching, research and service by the centre, school or department in which they conduct each part of their work.

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[1] *Victoria University of Technology v Wilson & Ors* [2004] VSC 33.

Facts

In July 1999, World Trade Online Holdings Limited (WTO) contacted the first defendant, Professor Ken Wilson, then head of the School of Applied Economics at Victoria University of Technology (VUT) about the possibility of the university developing a range of online international business and trade subjects to support an online international trading exchange WTO was planning to develop.

In early September 1999, WTO asked Wilson and the second defendant, Dr Donald Feaver, a senior lecturer in VUT's school of applied economics, to develop a system design for the online international trading exchange that WTO wished to develop. The sixth defendant, Craig Astill, started working on the project at about this time as an investor in WTO. Software system design was outside the then expertise and work normally done by Wilson and Feaver, but they nevertheless agreed and were able to complete the project. On 23 September 1999 Wilson, Feaver and Astill signed a statement that all intellectual property in the software system design for WTO was owned by the three men and on 6 December 1999 they established IP3 Systems Pty Ltd as a corporate vehicle for developing and exploiting the invention. However, for some time afterwards, Wilson and Feaver continued to refer to their formal positions at VUT in business presentations of the system.

WTO dropped out of the project by the end of November 1999 and on 16 March 2000 Wilson, Feaver and Astill lodged an Australian provisional patent application for their software system design in the name of IP3 Systems. On 16 March 2001 a complete patent specification was filed for the invention, this time in the names of Wilson, Feaver and Astill who assigned their rights in the patent application to IP3 Systems.

In August 2002 another VUT academic, Dr Morris, 'came upon the IP3 Systems website and after reading what it said about Professor Wilson and Dr Feaver, he broadcast on the university's intranet an email in which he posed the question of how Professor Wilson and Dr Feaver could have found time to be involved consistently with their duties to the university', as Nettle J recounted in paragraph 69 of his judgment. This led to the university investigating the matter and beginning the proceeding against Wilson, Feaver, Astill and their company, IP3 Systems, and their associates 10 months later, on 4 June 2003.

Within the Scope of Employment

VUT's intellectual property policy extant at the time the facts in the case took place sought to vest in the university ownership of any invention that involved the use of the university's materials.[2] The deputy vice-chancellor (DVC) then responsible for VUT's intellectual property policy had finalised the policy on 30 June 1995, but Nettle J found that there was no evidence that the policy had been adopted by the university's governing body and he found further that it had not been published in the university's staff manual (paragraph 82). There wasn't even evidence that the policy had been formally adopted by the vice-

[2] Helen Rofe of counsel, personal communication, 11 May 2004.

chancellor (para 85). Since the invention was not covered by an intellectual property policy then in force, His Honour therefore had to decide the ownership of the invention on general principles.

It is long settled that an implied term of employment is that any invention or discovery made by an employee in the course of work which they were retained to perform is the property of the employer and not of the employee: *Triplex Safety Glass Co v Scorah*.[3] A critical question for the court was therefore whether the invention of the online international trading exchange was within Wilson and Feaver's scope of employment. Nettle J defined their scope of employment not by the activities of the university as a whole, but by the activities of the School of Applied Economics in which Wilson and Feaver were retained to conduct their research (para 108). His Honour found that the invention was not within the scope of Wilson and Feaver's employment after they signed their statement on 23 September 1999, for two reasons.

First, His Honour found that the school's research was confined to academic research which resulted in scholarly papers which did not extend to 'the sorts of practical or applied research that are relevant to the development and implementation of a computer based e-commerce system' (para 111). Nettle J held that the fact that other parts of the university may have engaged in that type of research was not relevant to determining the sorts of research that Wilson and Feaver were retained to conduct.

Second, the court noted that Wilson and Feaver's duties were expansively defined, that there appeared 'to have been a degree of flexibility in what might be done by way of work in the school' (para 122) and that Wilson had considerable discretion in determining what work would be within the scope of his and his staff's employment. Conversely, Wilson could exercise the same discretion to determine what would be outside university work and done in a private capacity, as he had sought to do in the statement he signed with his co-inventors on 23 September 1999. His Honour reasoned thus (at para 139):

> It remains however to consider the effect the agreement made between Professor Wilson and Dr Feaver and Mr Astill on 23 September 1999 that thenceforth the three of them would own the intellectual property in the design they were about to produce. The answer would seem to be simple. Paradoxical it may be, but logic dictates that inasmuch as Professor Wilson may have had authority to decide that work on the system design should be undertaken as a university project, he also had authority to decide that it would cease to be a university project. As I see it, the effect of the agreement was that the three men ceased at that point to work on the project on behalf of the university and that the work which they carried out on the project after that point was done on their own account.

However, Nettle J found that WTO had approached Wilson to undertake the project in his capacity as an employee of the university, and since Wilson had exercised his power to determine that he and Feaver should work upon the

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[3] *Triplex Safety Glass Co v Scorah* [1937] 1 Ch 211.

system design as a university project at least until the statement was signed on 23 September 1999, the invention was within the scope of their employment until that time (para 119). His Honour found that the invention had been made in the evenings and on weekends but that the inventors had also used some university time and resources in developing the system. But this was not so important to the court in determining that the work was a university project as the inventors' use of university letterhead, logos and titles in presenting the work.

On this point, the case should be distinguished from *Nottingham University v Fishel*.[4] Dr Fishel was a clinical embryologist employed by Nottingham University to conduct research but also to undertake in-vitro fertilisation (IVF) procedures at the university's facilities. Fishel also conducted IVF procedures for other institutions at their facilities. While Fishel received approaches to undertake outside consultancies at his employer's premises and used his employer's facilities to arrange the consultancies, the court held that Fishel attracted the consultancies largely on the strength of his personal reputation rather than because of his university position. The consultancies were therefore not university work. (The case was nevertheless decided against Fishel because the court held that his consultancies were covered by the university's outside work policy which Fishel had breached.)

Employee's Duty

Having found that the project was a university project at least until the date of the statement on 23 September 1999, the court next had to consider an employee's duty in handling business opportunities they receive as employees. Employees first have a contractual duty of fidelity and loyalty to their employer, and this duty is different for different types of employee: *Hivac Ltd v Park Royal Scientific Instruments Ltd*.[5] An employee employed at a lower level of skill, responsibility and remuneration has a lesser duty than an employee with greater responsibility and remuneration.

Employees may also have a fiduciary duty to their employer. Nettle J held that an employee's fiduciary duties also depend on the 'nature and terms of employment' (para 145). His Honour found (paras 147, 148, 149) that academics' duties have been changed by recent social developments:

> (147) Perhaps it is not all that long ago that professional public servants (in the broad sense that includes academics) were expected to refrain from private money making activities. The theory then was that such persons were appointed to do a job which was expected to be all-consuming, and they were paid a salary, in effect, for the whole of their time. If such an employee were not working he was expected to be at rest, and it was a misuse of his resting time (for which, in effect, the employer was paying) to work for someone else. It went without saying that they would not work for themselves or for anyone else.

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4 *Nottingham University v Fishel* (QBD) [2000] ICR 1462.

5 *Hivac Ltd v Park Royal Scientific Instruments Ltd* [1946] 1 Ch 169.

> (148) But that is no longer the case. In the last thirty years, public service in general and academia in particular have changed considerably. To a greater or lesser extent, both have been politicised and commercialised. The notions which once informed the Northcote–Trevelyan reforms of the civil service have been put aside. A number of the conditions of service which once informed academic service structures have been replaced with 'business practices'. Permanent and tenured employees have in many cases been replaced with 'contractors'. And correspondingly, notions of loyalty and service have tended to diminish. It no longer goes without saying that public servants in general or academics in particular are bound to refrain from extraneous paid activities. These days it takes an express term of contract or condition of service in order to achieve that result. Accordingly, I do not accept that it is enough to make an academic liable to account for information or opportunity acquired while working that the academic may spend most of his time working.[6] Furthermore, in the case of Professor Wilson and Dr Feaver, the terms of the university's outside work policy provided that they were free to work outside university hours without consent, provided the work involved did not interfere with their duties to the university.
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> (149) On the other hand, and subject to contract, it remains unquestionable that professional employees owe to their employers fiduciary obligations not to profit from their position at the expense of the employer and to avoid conflicts of interest and duty.[7] Accordingly, even if an employee is, generally speaking, free to work for someone else, he or she must avoid work which could conflict with the interests of the employer that the employee is paid to serve.[8] Correspondingly, in the absence of full and frank disclosure and consent, a professional employee remains bound to account to the employer for gains derived as a result of the employee's fiduciary position and for opportunities of which the employee may learn in the course of employment; lest the employee otherwise be swayed by considerations of personal interest. Nothing which has occurred in the last thirty years has altered any of that.

His Honour found that Wilson and Feaver were presented with the opportunity to design the online international trading system as employees of VUT, and that they did not disclose the opportunity to their employer. Furthermore, Wilson and Feaver 'began work on the system design in their capacities as employees of the university and for the benefit of the university and that they continued in that vein until 23 September 1999' (para 150). However, 'the effect of the decision of 23 September 1999 was to take away

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6 *Nottingham University v Fishel*, QBD) [2000] ICR 1462 at 1494.

7 *New Zealand Netherlands Society 'Orange' Incorporated v Kuys* [1973] 1 WLR 1126 at 1129; *Consul Developments Pty Ltd v DPC Estates Pty Ltd* (1975) 132 CLR 373 at 377.

8 *Warman International Ltd v Dwyer* (1995) 182 CLR 544 at 557–58.

from the university and transfer to the three individuals the opportunity of continuing with the design of the system, in order thereby to exploit the opportunity for their own benefit to the exclusion of the university'. His Honour therefore concluded that Wilson and Feaver breached their fiduciary obligations to their employer (para 150).

As Helen Rofe of counsel observed,[9] it is interesting that his Honour attributed the same level of fiduciary duty to Professor Wilson, the head of the School of Applied Economics, and to Dr Feaver, a senior lecturer. In Ms Rofe's view, His Honour attributed a relatively high fiduciary duty to 'a not very senior academic'. If the correct inference is that the 'nature and terms of employment' of a senior lecturer are sufficiently similar to those of a professor and head of department to attract the same fiduciary duty, arguably a similar duty is also owed by a tenured lecturer at level B.

Remedies

Wilson and Feaver started working on the invention in September 1999 and, had VUT applied for a constructive trust over the intellectual property before the end of that year, it may have been successful. However, by the time the university issued proceedings on 4 June 2003, other people had contributed to the creation of the intellectual property and had invested substantial capital in developing the property. Nettle J therefore declined to grant VUT's application for a constructive trust over the property, and instead granted the university a constructive trust over the shares in the property owned by their employees, Wilson and Feaver. This demonstrates how the relief in equity is moulded to reflect the state of events at the time of the trial[10] and not, for example, at the time of the breach of fiduciary duty.

VUT became aware that Wilson and Feaver had founded IP3 Systems to develop intellectual property which was protected by an international patent at least by August 2002. However, it did not institute proceedings until 4 June 2003. Nonetheless, the university was able to obtain *ex parte* an Anton Piller order against the defendants to allow the university to enter the defendants' premises to look for, inspect and take away any infringing items and documents relating to the defendants' infringing acts. Anton Piller orders are to protect plaintiffs against a substantial risk that a defendant may dispose of infringing items and documents relating to its infringing activities. The defendants must have expected that legal proceedings were a possibility at least since the university began its internal investigation from around late 2002. The fact that the court was willing to grant Anton Piller orders *ex parte* six months later suggests that Australian courts may be more liberal in granting these orders than envisaged by Lord Denning MR in *Anton Piller KG v Manufacturing Processes Ltd.*[11]

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9 Personal communication, 11 May 2004.

10 I am grateful to Peter Collinson of counsel for this observation, personal communication 6 May 2004.

11 *Anton Piller KG v Manufacturing Processes Ltd* [1976] 1 All ER 779 (CA).

Discussion

Many Australian universities' intellectual property policies, including VUT's subsequent intellectual property policy which was validly adopted but which did not apply to these proceedings, restate the common law in vesting in the university inventions made by staff 'within the scope of employment'. Accordingly, the court's reasoning on what falls within the scope of employment is relevant to many universities' intellectual property policies as well as elucidating the position at common law.[12] Furthermore, it seems that Nettle J would be willing to determine the scope of employment for some of an academic's duties, such as research, by reference to a research centre in which the academic conducted their research, for example, but determine the scope of their employment in teaching by reference to the school or department in which they did their teaching. The issue may be further complicated for the significant minority of staff who research and teach in more than one centre, school or department.

The case is also interesting in showing how the court understood that the comparatively recent commercialisation of Australian universities had reconstructed the nature of academic work. On the other hand, Nettle J found that academics, at least at the level of head of school and probably also professors who are not heads of school, have considerable discretion in determining the scope of their academic employment. Whatever commentators say about the increasing managerialism of universities, Nettle J did not find that it had advanced sufficiently at VUT to limit Professor Wilson's discretion in determining what would and would not be undertaken as a university project. In this, I suspect VUT is not materially different from most other Australian universities. The rational response of universities would be to become even more managerialist, or at least to ensure that their senior staff discuss and report their work to their supervisor more fully than 'the sketchiest details' that the court found Wilson had given to his supervisor, the dean of business and law (para 175). Had the university been aware of the activities of its staff earlier, it would have been in a better position to obtain the remedy it sought, and it may even have been able to avoid the matter being litigated.

The court held a senior lecturer to the same fiduciary duty as a professor and head of department, and arguably a similar high duty applies to a tenured lecturer at level B. In the view of Andrew Panna[13] of counsel, the extensive reach of equity and fiduciary duties is not well understood. It may also not be well accepted by academic staff who have a proprietorial view of 'their' ideas, 'their' research' and 'their' teaching. This suggests that universities have a major and difficult task in developing a shared understanding of the ownership and management of their intellectual property while maintaining academics' pride in and commitment to their intellectual achievements.

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12 I am grateful to Helen Rofe of counsel for this observation, personal communication 11 May 2004.

13 Personal communication, 6 May 2004.

Finally, it is unfortunate that a university should ever sue their current staff. Nettle J found a 'remarkable … level of distrust and animosity exhibited throughout the trial' (para 218). As the parties with overwhelmingly greater resources and broader long-term interests, universities should take more responsibility for settling disagreements with their staff in preference to enforcing strictly their legal rights, however correct in law they may be.

Professor Wilson, Dr Feaver and their associated companies have appealed to the Court of Appeal on the issue of liability.