

Small and Medium Enterprises and IPR from Finnish Standpoint

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IN FINLAND the activity of applying patents for high technology (especially information technology) in relation to the population of the country is highest in the world. Big enterprises, i.e. enterprises having 250 employees or more,¹ have, generally speaking, more patent applications and granted patents than SMEs. The total amount of SMEs is, however, more than 90 per cent of all Finnish enterprises. Generally speaking, an SME owns no patents or not more than one or a few patents. As far as the other IPRs are concerned, the situation can generally be described in the same way.

Typically SMEs are enterprises which either are in their initial stage or are never capable to grow to the category of a big enterprise. The reasons for such a stagnation vary in each individual case. Factors of a more general type (personal incapability of the enterpriser, financial difficulties, market situation, handicaps like excessive taxation and social expenses including the over-reaching bureaucratic control of SMEs on the part of public authorities) are often connected with more specific factors which result from characteristics of the IPRs which are part of the property of the enterprise in question. Owing to such hindrances, the IPRs can be used only insufficiently for the purpose of economic growth of that enterprise.

There are many factors which affect negatively to the possibilities of SMEs to exploit a particular IPR. Generally speaking, the dependance of an SME on only one or a few IPRs makes the enterprise more vulnerable in the economic competition which that enterprise faces especially on the part of big enterprises. Most SMEs do not possess large patent portfolios etc. which can be used, for example, as a change to pay acquisition costs of important IPRs owned by other enterprises.

Often a patent or another IPR brings about special advantages like savings in production costs, competitive prices or/and opening of new

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1. About the definition of an SME see, W. Kingston in F. Dessemontet and R. Gani (ed.), *Creative Ideas for Intellectual Property- The ATRIP Papers 2000-2001*, 378 (Publication CEDIDAC 46, Lausanne, 2002).

geographical markets.² However, owing to their vulnerability many SMEs cannot exploit these kinds of economic values of IPRs in the same scale as big enterprises. SMEs often lack financial possibilities to defend their patents and other IPRs or to take insurance against litigation costs. In general the personnel of SMEs are not either trained for handling disputes connected with patents and other IPRs and the time and energy devoted to such kinds of disputes about enforcement of IPRs is taken away from use of the inventive capacity and ingenuity which are the special characteristics of SMEs.³ Often persons employed by SMEs do not have sufficient knowledge and insight in basic principles of, for example, contract law, necessary contractual precautions and negotiation tactics, when they negotiate with the representatives of especially big enterprises about the utilization of IPRs.

Moreover, the possibilities of SMEs to enforce their IPRs depend on the characteristics of the legal system in each country. In most countries, including European countries, patents are granted according to the so-called first to file -system. This system (as well as the so-called first to invent -system in the United States patent law) can be assumed to be more favourable for big enterprises than for SMEs. This depends on the fact that big enterprises have more financial resources than SMEs to dispute about some basic legal problems, like about the question who is the inventor (in Europe) or who is the true and first inventor (in USA).

Generally speaking the Finnish IPR system meets well the international standards. Protection is given besides for inventions, industrial designs, trademarks, (copyright-protected) works and other kinds of IPRs qualified as exclusive rights also for trade secrets and secret technical know-how which often is more valuable than a patent to which the exploitation of know-how may be linked.

When the relation of an SME to IPR is studied, it may be asserted that the study should be concentrated at the same time to the exclusive rights (patents etc.) as well as to the trade secrets and the secret know-how of the enterprise in question. The IPRs of the last-mentioned type are protected only in certain relations especially mentioned in Article 4 of the Finnish Unfair Trade Practices Act and in chapter 30, Articles 4-6 of the Finnish Penal Code.

According to the present provisions of these laws, the duty of an employee to abstain from misusing the employer's trade secrets is, in principle, limited to the period of validity of the employment contract. The mobility of manpower and freedom of competition are the basic ideas behind the said main rule. In addition, the freedom of competition includes the right to engage key personnel directly from a competitor. From legal

2. See, M. Tuominen, *Teollisoikeudet vakuutena* (IPRs as guarantees) 95 (Vantaa, 2001).

3. See, Kingston, *supra* note 1, at 386-392.

point of view that kind of activity may, however, turn out to be problematic, if the main goal of the activity is to acquire the possession of the secret know-how of the competitor which at the same time often is his trade secret.⁴

Generally speaking big enterprises have better financial resources to offer key employees of SMEs better salary and other advantages than their present employers can afford to pay. Therefore, SMEs often are under threat of loss of the secret know-how necessary for the best utilization of their patents, utility models and other IPRs via the engagement of their key personnel to the service of a big competitor. Such losses tend to lessen the interest of SMEs in innovative activities, from which socio-economic losses may result. We shall keep in mind that SMEs often are more innovative than their bigger competitors. Those often confine themselves to exploit their old products and methods without developing better and more competitive substitutes.

According to a recent government proposal just debated by the Parliament, the duty of an employee to abstain from using or divulging the employer's trade secrets would, as far as the responsibility according to chapter 30, Article 5 of the Penal Code is concerned, be extended to last until two years have elapsed since the termination of the employment contract.⁵ In addition, according to chapter 3, Article 4 of the existing Finnish Employment Contract Act, the new employer or another third party is liable for the damages accrued to the former employer from the divulgence of a trade secret to the third party, if he knew or should have known that the divulgence made by the employee was unlawful.

The said government proposal will in the near future presumably be turned into legislation. It is interesting to see if the protection of employers' trade secrets and secret know-how will be improved so that the said right of the former employer to recover damages, besides from the former employee, as well from the new employer, will be extended to make the new employer liable (together with the former employer) for damages accrued to the former employer from a divulgence of a secret, which the former employee has committed during the said period of two years.

The answer to the posed question depends partly on the interpretation of the said Article of the Employment Contract Act. In addition, the liability of the new employer using former employer's trade secrets under the said circumstances can, according to my opinion, be based on the existing

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4. See, M. Castrén, *Liikesalaisuuksien oikeussuojasta yhteistoimintasuhteissa ja niiden jälkeen* (The protection of trade secrets in cooperative relations and thereafter) 111-112, 131-133 (Vammala, 1973); and M. Castrén in *Creative Ideas for Intellectual Property* 585 (Lausanne, 2002).
 5. See, about Chapter 30, Art. 5 of the Criminal Code in Government Proposal 2002:53.

general clause in Article 1 of the Unfair Trade Practices Act. According to the said Article, in general, all unfair practices in business life are prohibited.

As has been told, SMEs are especially vulnerable, as far as their trade secrets and secret know-how are in question. The described law reform might improve SMEs' position in that respect.

Like enterprises in general, SMEs may demand especially their key persons to sign contracts not to compete with their former employer during a fixed time. Such a restraint may not normally exceed a period of six months. Owing to this reason and to the other conditions required by the law for the validity of a contract not to compete, (chapter 3 article 5 of the Employment Contract Act) such contracts do not in general help much SMEs to protect their trade secrets and secret know-how.

I hope that the foregoing presentation has been helpful to clarify that when the question about SMEs and IPR is studied, an overall reaching examination covering all relevant economic and legal aspects related to IPRs qualified as exclusive rights as well as other valuable business assets (especially secret know-how protectable as a trade secret) may be valuable in order to give a picture as complete as possible about how SMEs manage to handle their IPRs and to make a profit from them.