

CEOs: Don't Forget the Trade Secrets



Software-based technologies like AI are considered by many as “the new oil,” fueling the innovation economy of the 21st century. But unlike the inventions of the past – the printing press, steam engine, or automobile – today’s innovations involve lines of software code, undetectable to the user and all too often undocumented and unprotected by its creators.

In the age of digital technology, trade secrets are taking a more prominent role in the IP protection plans of organizations, big and small. And for good reason when considering:

- the non-discoverable nature of AI source code making it easier to conceal and protect by creators, and thus more difficult to steal by competitors.
- recent patent developments creating uncertainty and unease for inventors as well as momentum toward a hybrid approach that features trade secrets, e.g.:
 - Supreme Court decisions invalidating patents often as “abstract” or mere laws of nature (*Bilski*, *Mayo*, *Alice*).
 - legislation (America Invents Act of 2011) creating new procedures for companies (often large and cash rich) to attack the validity of patents held by competitors.
 - the emergence of the TRIPS Agreement of 1995 that harmonized trade secret laws across its member states.
- low cost and minimal standard for eligibilityⁱ (trade secrets comprise any company secret that gives it a commercial advantage over competitors).

While other forms of IP like copyrights, trademarks, and patents have a registration and “issuance” process,ⁱⁱ no such procedure exists for trade secrets. Consequently, waiting until you need to assert them to document and validate them is often too late!

The Consequence of Lost IP Protection

Where the intangible assets and IP of a company can represent upwards of 80% of its overall value, a leader’s indifference to IP risk can end in disaster. Both through a failure to protect the company’s IP and through company exposure arising from improper use of another’s IP. Here are a few recent examples:

- company discovers IP theft by departing employee – which is the most common basis for a trade secret suit – five years too late;
- company’s failure to document its IP leads to case being dismissed against competitor;
- company loses trade secret case due to poorly drafted standard employment agreements used by HR.

Many of these and scores of other companies caught up in the IP thicket were sophisticated Fortune 500 enterprises.ⁱⁱⁱ Unfortunately, they assumed, wrongly, that the lawyers could and would handle it all. As shown, they can’t and don’t. Daily, critical IP is walking out of corporate offices, undocumented and lost forever, as a result of employee job-hopping caused by the legal erosion of non-compete agreements and an insatiable job market for technical talent.

With the shelf-life of technology dwindling to less than half that in prior eras, whether you are a start-up or a public company, now more than ever you and your employees need to understand how to identify, document, protect, and make proper use of your company’s proprietary assets to secure its true value.

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Companies answering “no” to some – and, more often than not, most – of these questions are in need of a plan to shore up their trade secrets.

1. In the past 12 months, has your company undertaken an audit or review to document the trade secrets or other confidential information that it created?
2. Have you identified the groups or individuals in “IP-producing” and “IP-handling” roles at your company most likely to implicate its IP rights?
3. Have you trained those individuals on best practices for documenting the creation and/or handling of that information?
4. Do you and key personnel know the rules around how/when a marketing pitch or product demo can destroy the “secrecy” or IP value of those assets, forever?
5. Do you and your employee managers have a standard process for managing potential IP risks of employees – whether coming into or exiting the company?

Just Start

Don’t be overwhelmed; it’s not too late. The reality is all companies must start from scratch. To get your IP plan underway, start first with the critical step of identifying your initiative owner. This might be your general counsel, your head of R&D, or perhaps your CFO given the non-trivial balance-sheet implications. The key is that the internal champion you select be senior, visible, and empowered.

While this article is not intended as a “how-to” guide, as the responsibility for effectively managing the process will rest with the owner, there is much to be gained by [considering a form of behavioral design](#) as you gauge your best steps forward. This may provide a useful framework for examining the strategies, implementation tools and processes, and incentives that are in place – or in dire need – to successfully position your company to make the most of its IP.^{iv}

Conclusion

As the great innovator Albert Einstein said, “[I]logic will get you from A to B. Imagination will take you everywhere.” Your company is already doing the hard work of reimagining a better product or service for your customers. But it’s your responsibility to capture the future value of that work. When it comes to protecting IP, don’t be part of the next cautionary tale as a leader suffering irreversible IP losses due to faulty contracts, inadequate IP documentation, or non-existent employee training or policies. It’s OK to be secret and silent as long as you’re active. Because in this context, no news will indeed be the best news!



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ⁱ [Trade Secrets and Artificial Intelligence: Opportunities & Challenges by Hawraa Hammoud :: SSRN](#) at 3 (“[A] significant number of companies rely on TS to protect different AI components. Many reasons can explain this. Firstly, TS have a broadly eligible subject matter compared to other IP tools, making them suitable for innovation falling outside the copyright or patents scopes. Besides, TS can be protected for a theoretically unlimited time ... Moreover, protecting TS does not include any registration transaction or filing fees. The final point is of utmost importance for small and medium-sized enterprises (SMEs) as they often lack legal and financial resources for IPR registration. Finally, the main factor lies in how trade secrets are compatible with the AI fast pace of development. Since TS enjoys immediate protection, there is no need to register a successive patent for every improvement and wait to complete the registration procedure.”)

ⁱⁱ Applications for these forms of IP are filed with the US Copyright and Patent and Trademark Offices. Once granted, courts generally entitle them to a “presumption of validity,” that must be rebutted by the opposing party.

ⁱⁱⁱ See also [You Map, Inc. v. Snap Inc., C.A. No. 20-00162-CFC | Casetext Search + Citator](#) (upstart plaintiff’s case against Snap dismissed due to failure to document and describe its IP with adequate specificity in trade secret case).

^{iv} An example of behavioral design used in the context of enhancing a company’s employee-development program can be found at: https://www.linkedin.com/posts/nickpsyhogeos_techcrunch-article-how-engaged-are-your-activity-6843532281156571136-NydA?utm_source=share&utm_medium=member_desktop