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sunitha nath boutiques: Intellectual Property Rights (c)

Nithyananda KV wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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In early December 2015, Sunitha Somanath (Sunitha),[[1]](#footnote-1) the founder and chief executive officer of Sunitha Nath Fashions & Boutiques Pvt. Ltd. (SNB), was co-operating with her lawyer, Rajashri Menon, taking measures to be implemented at SNB to mitigate losses from an incident that had occurred in her company ranks. Sunitha’s most trusted employee and studio manager at SNB, Raghuveer Urs (Raghu), had quit SNB without notice. Further, it appeared that Raghu had stolen money from SNB, taken away one of SNB’s important clients, and started a business that competed directly with SNB.

Sunitha and Rajashri had considered what immediate measures needed to be implemented at SNB to contain further damage and preserve Sunitha’s relationships with her clients and vendors. They had also reviewed SNB’s employment agreement with Raghu and found the agreement was missing some important legal matters. Rajashri indicated that they could explore other legal avenues to restrict Raghu’s ability to use SNB’s resources. Rajashri also committed to helping Sunitha make changes to the agreements with her remaining employees to prevent such events from happening in the future.

Rajashri had asked Sunitha to gather more information about the property Raghu was planning to lease for his new business. She had also asked Sunitha to speak with SNB’s vendors and customers to ensure that their accounts were in order. After gathering the required information, she was to meet Rajashri at her office in the evening to decide SNB’s future plan of actions.

SECURING Sunitha Nath Boutiques

After Rajashri left SNB, Sunitha began gathering the information Rajashri had requested. Sunitha instructed her assistant, Samarth, to personally visit the property in Fraser Town, Bengaluru, and learn what he could about the property and its owner by speaking to other tenants or nearby real estate brokers. Sunitha also instructed the office manager to get the locks changed at the offices. She then called the information technology service provider and instructed him to deactivate Raghu’s email account after making a backup of the contents of the account. Sunitha suggested that all passwords of all email accounts and other computer access codes be changed and documented so that they were recorded and safeguarded properly.

While these tasks were underway, Sunitha began contacting the vendors and customers Raghu had been interacting with. She carefully asked her vendors and customers about their dealings with Raghu. Most of them said that all was in place with their accounts and projects, but one of the vendors informed Sunitha that he had done the stitching and finishing work for the movie project at Raghu’s request and Sunitha that he had not yet received payments of ₹500,000 (about US$7,500).[[2]](#footnote-2) Sunitha was unaware of that agreement, and the vendor expected payment from Sunitha. Apart from that one incident, Sunitha did not find anything amiss with Raghu’s dealings with vendors and customers.

Sunitha updated the vendors and customers with the news that Raghu had quit SNB and advised them to stop dealing with him. She also informed them that she would officially write to them on this matter later. A few vendors and customers admitted that Raghu had informed them that he would be starting his own independent firm and had encouraged them to work with him rather than stay with SNB. Sunitha reassured those vendors and customers that their interests would be protected, and she expressed her opinion that Raghu would not succeed well on his own in the industry, hinting at legal challenges Raghu might face. Many of her vendors and customers were concerned but relieved to hear this news from Sunitha.

Sunitha also secured all contracts and other important documents relating to SNB under lock and key in her personal office. She prepared a file detailing the Fraser Town property, and she made copies of the appointment letters signed with all the continuing staff at SNB. By the time Sunitha had organized these things, it was time to meet Rajashri at her office.

Legal Action

Rajashri welcomed Sunitha into her office. Sunitha briefed her lawyer and her friend about the actions she had taken to secure her office. She also told Rajashri that she had secured all the important contracts and other documents in her personal office, away from public access, and that she had taken measures to secure emails, computers, and other technological points of access.

Samarth had been able to determine that the office rented in Fraser Town was owned by a relative of Zakir, the movie production manager who befriended Raghu. The office had been leased to Raghu for a monthly rent of ₹25,000 (about US$375). Mr. Shyam Kumar, the chief executive officer of the design firm Raghu retained to make office improvements, had a copy of Raghu’s lease. Shyam also provided the design layouts, agreement for interior design work, and payment details for the changes to the Fraser Town office. Sunitha gave all the documents to Rajashri for her review.

After reviewing the documents, Rajashri announced, “We have what we need. Raghu has used SNB’s funds to carry out personal work. We can serve a legal notice to Raghu seeking reimbursement of the money he has misappropriated in addition to damages. Alternatively, we could file a police complaint and have Raghu arrested. Which option would you prefer?”

Sunitha wanted to pursue a police complaint. “I would rather have him arrested for trying to sabotage my business and for stealing money belonging to my office for his personal benefit,” she said.

Intellectual Property Rights

With intentions clear, Rajashri recommended that they determine whether Raghu had stolen or misappropriated any of SNB’s confidential information. Although SNB’s employment agreement with Raghu was missing some legal elements, which made it easier for Raghu to steal confidential information, Rajashri felt there were other options in this instance for dealing with Raghu’s unauthorized use of SNB’s resources for his own business.

Rajashri reminded Sunitha of the nature of confidential information and added that one of the kinds of confidential information would be “trade secrets”[[3]](#footnote-3)—”valuable business information that derives its value from the secrecy.”[[4]](#footnote-4) Rajashri mentioned the Coca-Cola recipe and Google’s PageRank as illustrations of trade secrets. Rajashri also reminded Sunitha that trade secrets and confidential information (TS/CI) were types of intellectual property (IP)—information and creative works that were “creations of the mind.”[[5]](#footnote-5) Rajashri emphasized her point:

TS/CI are among the most important things you should be protecting in your line of business. As a creative person, it becomes your highest priority to know about IP rights. If you don’t know about or understand IP rights, then as a creative person, you will not be able to protect and safeguard your creative work. Similarly, you might not be aware of when and how your rights are being adversely affected if someone misappropriates or steals your creative work. Such misappropriation or theft could prevent your work from reaching its true potential.

Recently, the issue of “IP rights,” as it’s commonly known, has been gaining mainstream attention. In a knowledge-based economy, information is financially and strategically valuable. If you are not protecting your IP and taking advantage of your IP rights, others might steal or misappropriate your ideas, which might result in you losing a lot of your money, time, and effort.

IP rights for creative works vary. Some are granted by the government through a process of registration (statutory law), while others automatically apply when a work is made (common law). Some of these rights might be recognized and asserted by the courts. Use, trade custom, and industry practice all help you to protect creations such as designs and plans for fashion shows.

The most common methods of protecting IP rights are patents (usually for inventions, granted after registration), copyrights (usually for art, designs, music, and written works, accrued immediately after its creation), and trademarks and service marks (usually for brand names and logos, recognized based on usage, as well as through registration). But you don’t always need these formal methods; for instance, in the case of trade secrets, the first and most important thing to do to protect your trade secrets and confidential information is to keep it private and secure. All these IP rights can be applied in creative industries, including your fashion industry business.

Sunitha confirmed her understanding: “Okay, I’ve got it. Whatever creative work I do at SNB would be eligible for protection under IP rights.”

Rajashri nodded. “Yes, that’s it,” she said.

Now, TS/CI are a type of IP. Any information that is not in the public domain and has commercial value to the possessor or creator of the information would be classified as TS/CI. The possessor or creator of the information must believe that it would be disadvantageous if such information fell into the hands of competitors. Also, the possessor or creator must believe that would provide a significant competitive advantage over competitors.

Rajashri further explained that trade secrets could be classified as technical secrets or business secrets. Rajashri explained that while technical secrets related to the production of goods or services, business secrets related to information the business generated about its own activities. Technical secrets included inventions, tools, designs, and processes. Business secrets included, costs, pricing, sales statistics, customer or supplier lists, and feasibility studies.

“So you mean to say that any technical secret or business secret that I believe has value and gives me a competitive edge over my competitors is TS/CI? Any information, no matter how trivial, no matter how serious?” asked Sunitha.

“Yes, that’s right.” Rajashri continued:

That the information has economic value is important, and such information, if lost, puts the owner of that TS/CI at an economic disadvantage. Let me give you an example to clarify.

In this incident involving Raghu, you have realized that Raghu had access to every conceivable bit of information in the organization, including technical and business secrets. Such information included SNB’s client list, vendor list, and commercial arrangement with vendors and clients; the employment records and compensation structure for all the employees; SNB’s pricing policy, financial structure, all banking and financial records, and the terms and conditions of all important deals and transactions, among others. You now know that if such information is leaked to your competitors, then they will immediately have an upper hand over SNB.

All of this information can be classified as SNB’s TS/CI. But, unfortunately, as a result of this incident, you have lost control of the information and cannot safeguard it in your organization.

Rajashri went on:

There is no process for registering TS/CI with any statutory body. As long as you take the necessary precautions to safeguard it, the information remains a TS/CI. But the moment the information is lost or stolen, you lose control of it forever and cannot reclaim it.[[6]](#footnote-6) The only option available to you is to recreate new information that provides you with new competitive advantages, which your competitors would not have. Let’s take the case of Raghu. He has stolen most of your TS/CI. He can use it to undercut you in the market and, to that extent, the information provides him with a competitive edge over you in the market, doesn’t it?

“Yes,” Sunitha agreed. “If he wants to, he could use that information to undercut me in the marketplace.”

“So you have lost the information that was providing you with a competitive edge. Now, can you reuse the information and still win in the marketplace, especially where Raghu wants to have a presence?”

“Probably not,” said Sunitha. “But he can’t compete with me in the market where I operate, at least not yet. He could take away certain small-time business operations, which generally used to pay the bills and keep us financially afloat. But he cannot compete with me in the mainstream fashion industry. He doesn’t have the experience to be there. Moreover, as mentioned earlier, I want him to be in jail, where he actually belongs. He has stolen money and I want him to be arrested and put behind bars.”

Rajashari emphasized the importance of losing TS/CI:

We’ll ensure that Raghu is put behind bars for what he has done. That’s a different story. Also, talent and experience are not to be brought into the discussion here. Please remember that however he uses your information, Raghu could create hurdles in whatever market he wants to operate in, where even you could have had an opportunity. Now, because he is operating in that space, you cannot be competitive there.

Also, Raghu knows all your important clients and vendors. If he wants to, he can lure them from your business, don’t you think? Not only that, he knows all your employees, their experience, and their expertise. If he wants to entice any of them to join him in his new venture, then it would be very easy for him. These are the implications that I am talking about, which could have significant negative competitive implications for your business, all because you have lost the TS/CI to Raghu.

All the information that I asked you to check and verify back in your office was TS/CI belonging to you. Recall that I just mentioned that TS/CI couldn’t be registered with any statutory body. That being the case, the only way to protect TS/CI is by internally erecting sufficient safeguards using your organizational policies and practices. That’s also the reason why I asked you for the copy of Raghu’s appointment letter.

You have not erected sufficient barriers to safeguard your TS/CI. There are no grounds in Raghu’s employment contract that we could use to have him arrested. We’ll have to work on the basis of legal principles, which come from the common law, developed by judges as they hear and try cases in court. As the studiomanager of SNB, Raghu was duty bound to protect the TS/CI belonging to SNB. He has breached his responsibilities by stealing that information.

“But why should we get him arrested for stealing information? He has stolen money for which he should be arrested. It is a crime to steal money, right?” asked Sunitha.

“Yes, that’s right. But when we build our case, we should make it a water-tight one and use as many legal provisions as possible to ensure that Raghu does not get away easily. Hence, we need to include stealing confidential information as well when we file a case with the police. I’ll get the complaint drafted and send my assistant to your office by tomorrow morning. Go with him to the police station for your jurisdiction—the station closest to your office—and lodge a complaint. My assistant will take care of the legal formalities, but you have to be present to clarify and corroborate any questions raised by the police personnel. Once that is done, we’ll take appropriate actions to safeguard other IP in your business,” instructed Rajashri.

“Sure, Rajashri. We shall do it as soon as possible.”

Rajashri outlined their next steps:

Also, in the next couple of days, I’ll work on creating a new format of appointment letters for SNB. Kindly send me the details of your employees, their roles and responsibilities, their dates of joining, and the breakdown of their cost to company. I’ll customize the appointment letters accordingly to include non-disclosure, non-compete, and non-solicitation clauses. I’ll also ensure that I’ll make them responsible for safeguarding SNB’s TS/CI and make them liable should the information be leaked or lost.

Does that sound good to you?” asked Rajashri.

“Sounds good to me, Rajashri. Thanks for the help you are providing me at this hour of need. I wouldn’t have known what to do if you weren’t around,” Sunitha replied. “Let me take your leave now, as it is getting very late for you. We shall continue this discussion sometime later. I am very keen to know about other IP and my IP rights and how to use them to make my business better. Also, I will need your help getting these aspects implemented at SNB. But before that, I’ll sort out the current issue with Raghu, and then we shall deal with these other aspects.”

Rajashri and Sunitha shook hands, and Sunitha left.

EPILOGUE

On her way home, Sunitha reviewed the events of the day and wondered how things could go so wrong in one single day. She had lost a major contract; she had lost a key employee whom she had mentored and trusted; and she had lost money. But despite this outcome, she had gained a lot from this entire episode. She had learned how to protect SNB’s trade secrets and confidential information, how to hire employees (and more so, how *not* to hire employees), and how to draft employment contracts. She had also learned about non-disclosure, non-compete, and non-solicitation clauses and their use in employment contracts. What a day it had been!

While the information was fresh in her mind, Sunitha thought she would list all the possible TS/CI that SNB possessed and the strategies she might adopt to protect and safeguard them. In addition, she wanted to explore the options available to SNB for recourse against Raghu, under both civil and criminal laws. She wanted to ensure that the legal strategies she adopted in dealing with Raghu would not create any adverse situation for her or for SNB in the years to come. Sunitha also wanted to understand what IP strategies she could adopt while dealing with her customers and vendors. As she thought about these aspects, she realized she needed to think about how her customers and vendors would react to these changes and whether their reactions would be justified.

Sunitha’s mind kept working on the issues she had dealt with over the day. She started thinking aloud, “If one type of IP in the form of TS/CI could have the potential to improve my business to this extent, what about other types of IP like patents, copyrights, trademarks, and designs? I wonder what IP rights they provide?” Sunitha was intrigued by these concepts, and she resolved to meet with Rajashri soon to understand those issues and how she could use them to add value to her business. More importantly, Sunitha needed to understand the benefits of protecting her IP rights.

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1. In India, the naming convention varied. People belonging to certain regions and communities had surnames, while others did not. Surnames could either be family names, community names, or the father’s or husband’s name. Sunitha had adopted her father’s name as her surname. Instead of addressing her as Ms. Somanath, she would be addressed by her first name, which was also a common practice in India. [↑](#footnote-ref-1)
2. ₹ = INR = Indian rupee; all dollar amounts are in U.S. dollars unless otherwise specified; US$1 = ₹62.13 on April 1, 2015. [↑](#footnote-ref-2)
3. The other kinds are artistic and literary information, government secrets, and personal information. [↑](#footnote-ref-3)
4. “What is a Trade Secret?” Canadian Intellectual Property Office, Government of Canada, accessed October 20, 2016, www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/wr03987.html. [↑](#footnote-ref-4)
5. “What is Intellectual Property?” World Intellectual Property Organization, accessed October 20, 2016, www.wipo.int/about-ip/en. [↑](#footnote-ref-5)
6. This is the legal position upheld in the case of *Earthweb, Inc. v. Schlack*, which they borrowed from the 1984 case *FMC Corp v. Taiwan Tainan Giant Indus Co., Ltd*. *EarthWeb, Inc. v. Schlack, 71 F. Supp. 2d 299 (S.D.N.Y. 1999); FMC Corp v. Taiwan Tainan Giant Indus Co., Ltd*., 730 F.2d 61 (1984). [↑](#footnote-ref-6)