Does the German Employee Inventions Act promote innovation?

Kerstin Single, Festo AG & Co. KG, Director of Intellectual Property

The Employee Inventions Act has a long tradition in Germany. The foundation was laid as early as 1957 with the German Act on Employees' Inventions (GAEI). On the other hand, due to its close connection to other legal fields in Germany - labour law, civil law and the patent and utility model law, to name but a few - there is substantial overlap.

Inventions are often equated with the term innovation in general language use, but are these really the same?

The term invention is not defined by law; according to §2 GAEI, inventions in the sense of this act are only those inventions which are eligible for patent or utility model protection. According to German Patent Act § 1, patents are granted for inventions in all fields, provided they are novel, are based on an inventive step and are industrially applicable. The Bundesgerichtshof (BGH, German Supreme Court) endeavoured to define the term as early as 1969: "Technical is a teaching for systematic action, using controllable natural forces to achieve a result with clear cause and effect." – BGH: "Rote Taube" 1969 and in further subsequent decisions. So, what is an invention and how does this correlate with the term innovation?

How is innovation differentiated from the term invention? I like the statement from Fredmund Malik (University of St. Gallen) in "Gefährliche Managementwörter" (Dangerous Management Words): "To generate ideas is something completely different to implementing ideas. Only the latter is innovation. Every innovation is an expedition into new territory, a first ascent into the Alps, but it is mostly treated as a walk in the park."

I don't want to provide a general term for innovation here, but to select the approach that an innovation includes economic success on the market; only then does an invention become an innovation.

But do we not all have the right in the field of intellectual property to drive the topic of invention towards innovation? Is the GAEI the correct tool here to truly achieve successful products and methods?

I would like to answer this question with a "maybe". Maybe in the sense that it, depending on how it is embodied, it can be an active support for the generation and the selection of first-class inventions to support the innovation process. Maybe, because it ultimately only comes into play through successful products and methods, so in the compensation of economically successful patents and utility models. Maybe in the sense that for non-economic inventions, it opens up possibilities to not pursue them (through corresponding buyout regulations). Likewise, through the GAEI and through Rule 11 of the Directives for Assessing Compensation Payments for Employee Inventions, the share of the invention in the implemented product is produced and through the selection of the royalty rate, a correlation to economic trends. But maybe also in the sense that a certain motivation "by money" encourages the inventor to report more inventions, and maybe due to the operation of the GAEI in the company, such that by using a consistent compensation policy and line, trust is maintained with the inventor. Inventors who I make compensation payments to today are my inventors of tomorrow! But there is also a clear "no". As the example of other countries has shown us, innovation and inventions are not solely able to be

achieved with the motivation of money alone. Furthermore, design protection does not fall under the GAEI, but nevertheless great ideas emerge which are eligible for design protection and do not receive extra compensation payments.

Now let us come to the compensation system at Festo AG & Co. KG. We introduced this system in 1999 and wanted to have a pragmatic system that was also simple due to low staff resources. Significant points here were that we decided to buy out the notification requirement of the invention report in Germany according to § 13, release of foreign property rights which were not applied for by Festo according to § 14 and release for premature abandoning of the property right according to § 16 GAEI in their entirety. We have hereby laid a substantial foundation to only register those inventions for patents, which have a real chance of success on the market (innovation), and only to pursue these inventions further abroad or prematurely abandon them (in the case that they are unsuccessful at grant or are uneconomical).

The inventions selected by a corresponding selection process and by a patent search are furthermore consciously used by us or are released for personal use under the caveat of use, against corresponding compensation. At the same time, the contractual offer to buy out the rights from §13, 14 and 16 GAEI takes place. The inventor must actively accept this which has occurred 100% of the time in the last few years. The inventor does not see this as buying out rights, but as an incentive.

After a successful patent application and successful implementation of the German or European examination procedure, the granting takes place, or the registration in the case of utility models. Here, in the case of patents, we wait until the expiry of the opposition period or of opposition proceedings which are successfully concluded in our favour and in which the fundamental core of the patent remains. Now the first real compensation step follows in that we compensate all reserve, improvement and blocking patents with a flat rate, the total of which depends on a decision by the Arbitration Board. For patents, this amounts to €620 and for utility models to €310. For utility models, this step occurs relatively close in time to the application, on average within 2-3 months; for patents it occurs approximately 4 years after application. With this approach we provide the management with a clearly defined point in time at which it is active. Furthermore, all unused property rights therefore subsequently receive compensation. We reserve the right, however, to the adjustment period according to §12(6) GAEI, should we in fact be involved with a blocking patent, which I have not yet come across in my professional experience.

As we have relatively good usage rates, we carry out a compensation action each year in order to make compensation payments for the used property rights accordingly. With us, the solution has been proven that only one patent professional carries this out for all colleagues. As we, if possible, want to handle the procedures only once, we have decided, after weighing up the pros and cons, to introduce a lump-sum compensation system. In most cases, we proceed here according to the royalty analogy in the directives. We base this on the product budget figures and the average net sales price in the first ten years of use which, with a determined risk discount, form the gross turnover as a calculation basis. Should we not be able to evaluate the smallest physical unit covered by the invention in terms of money, a corresponding percentile of the calculation basis of the product which is able to be determined, is estimated. As the product success and therefore also the innovation success largely do not solely depend on the invention, we provide a depreciation according to Rule 11 of the directives. The royalty rate is determined for each invention specifically with regard to the achievable monopoly position. The result is the invention value, which then leads to the final compensation with the co-inventor proportion which is already requested by the invention report, and the proportional factor which moves depending on the official position, in most cases between 13 and 15%. The already paid sums for unused property rights are brought into the calculation here. We have had good experience in determining the employees' invention compensation from the outset, however with a very detailed letter in which all compensation-relevant factors are listed and justified accordingly. Should the requirement for correction exist, then we are prepared to make an adaptation at any time, if justified, according to the objection of the inventor. We do not buy out the adjustment claim according to §12(6) GAEI in order to consider claims which also potentially arise later, for example for very strongly deviating turnover figures or the accrual of further products, in order to be able to implement a system which compensates for inventor and employer interests in as fair a way as possible. This system has proven itself over the years and value analyses have shown that until the present point in time, no requirement for amendment in accordance with §12(6) or inequity according to §23 GAEI was due.

However, we are still bound to determining all aspects, such as sales forecasts, the smallest operational unit able to be covered, royalty rates, etc., by the close dependence on the directives, despite the lump-sum compensation system, in which above all the sales forecasts are difficult and complex to create. Furthermore Festo AG & Co. KG is more and more internationally active in its development activities such that we want to reform the system in 2016/2017 to promote a consistent culture of innovation in the company and to consider the statutory

requirements of other countries. It is therefore important to us to treat and to motivate development teams from different countries equally, based on the respective standard of living. For this there is already a great array of different preliminary considerations. You see, with us, the topics of innovation and invention, also with reference to the GAEI, form an essential foundation of our company policy.

A further element which has been completely separated from the GAEI, is formed by the "Invention Award" which has been awarded each year under the patronage of our director Dr Kurt Stoll. The ten best applications of the previous year (determined by a jury) are awarded with monetary prizes at a separate event with participants from among the shareholders, the Supervisory Board and the Executive Board. Participation in this event is very motivating for many developers, as they would like to find themselves among the participants. Over the years, even in the early stages of application, it has also been shown that the winning applications have often led to innovations. This was also then reflected in the employee invention compensation paid.

Now quickly back to the initial question: does the German Employee's Inventions Act promote innovation? In my opinion, it can support the innovation policy of a company, but the invention is only the first stage of the operational implementation, such that hopefully the market success and the customer perception will arrive later. In any case, the crash barrier provided by the act must also be designed such that a compensation system which is as homogenous as possible emerges within the company. This compensation system must be joined by an open culture of innovation and implementation, in which a person should stand at the centre as the inventor and innovator.

I hope you have gained inspiration about the interaction of innovation and the GAEI; if you have remarks or would like to discuss it with me, you can contact me at kesi@de.festo.com or Kerstin.Single@festo.com.

Photos from this year's Invention Award in Strotmann's Magic Lounge, Stuttgart