THE SIGNIFICANCE AND FUNCTION OF THE "WORKS MADE FOR HIRE" DOCTRINE

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Abstract

The study of the doctrine *"Works Made For Hire"* (*" WMFH"*) is of immense Importance in determining the legal regime of the intellectual property rights created within the employment relationship, as well as their characteristics. The doctrine is represented in the countries of *common law* legal systems, and its study is of great importance, given that the issue of intellectual property rights in these countries has received much attention. In addition, numerous works in the field of science dedicated to this issue speak for themselves.

At the same time, the study of the doctrine provides answers to a number of questions that in the Macedonian legal system are still subject to dilemmas, considerations and disputes. The benefits are undeniably great, especially in terms of the ability to draw conclusions and to impose theories of thinking, in order to determine the legal regime of the intellectual property rights created within the employment relationship, which will serve as a basis for future resolution of disputed issues in this area.

Keywords: *Works made for hire, Contract of service, Contract of services, Intellectual Property,* Copyright.

1. INTRODUCTION

In the intellectual property law, the fundamental and generally accepted rule is that the creator of a work is the person who created that work. But, in theory and practice, there is an exception that applies to works that occurred in different circumstances than what is usual. These works qualify as a category of works that in countries of *common law* legal systems are falling under the doctrine of "Works Made For Hire" (Copyright Act, 1976).

The "Works Made For Hire" ("WMFH") doctrine, also known as the "Works For Hire" ("WFH"), was created by the US Congress, and was first implemented in the Copyright Act from 1976, and refers to a certain category of works that it categorises as WMFH or works that should be created by employees (employment relationship) or persons temporarily engaged (contract for services or order contracts) under pre-determined conditions such as contribution towards collective work, and in order to create a mechanism that will make an exception to the general rule (Nimmer, David

and Menell, Peter and McGimsey, 2002). The term "hire", depending on the context in which it is used, may indicate a lease(order) or a loan, and in certain situations an engagement or employment.

Within the framework of the doctrine, a distinction is basically made between contract of service and contract for services, i.e. the difference between the employer-employee relationship and the orderer-self-employed contractor relationship (Merrills, Fisher, 2006).

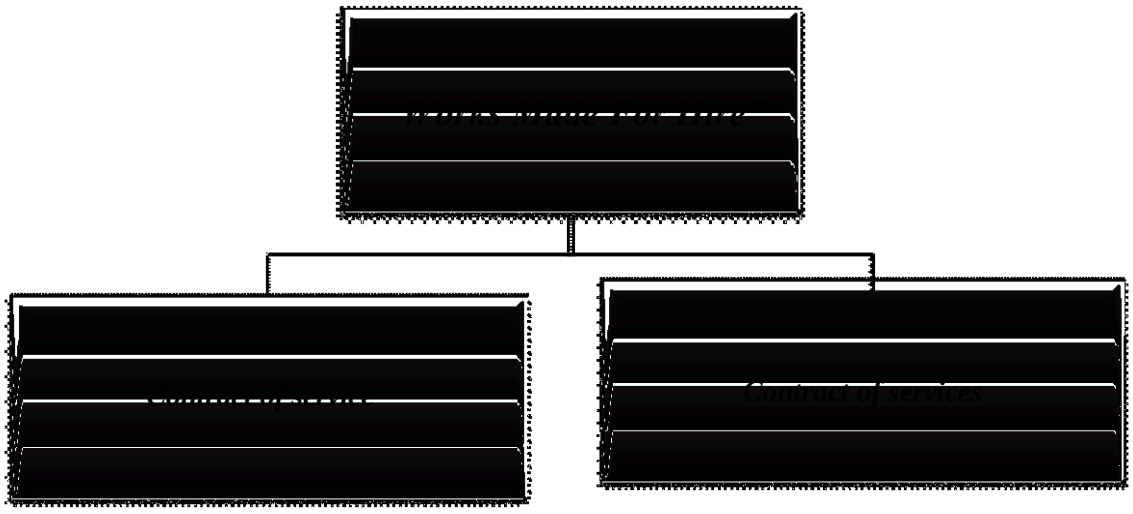
The difference also exists in the tax system, as well as in the fixed terms that apply exclusively to the contract of service, and are not applicable to the contract for services (Merrills, Fisher, 2006). There is also a distinction in terms of the employer's liability for the employee's illegal work.

Namely, the employer in case of a concluded contract of service is responsible to third parties for the illegal activities of his employee, but this is not the case with the contract for services, so the client is not responsible for the illegal behaviour of the perpetrator (Merrills, Fisher, 2006).

This distinction is also accepted in our legal system, but not the doctrine as such, because the regulation of the corpus of the intellectual property rights created in employment relationship and based on a contract for services are subject to a different legal regime. Namely, the intellectual property rights of works created within the employment relationship do not have legal treatment of an agreement of obligatory-legal nature, as is the case in the countries of *common law* legal systems adherents of the doctrine "Works Made For Hire".

2. CONCEPT OF WORKS MADE FOR HIRE DOCTRINE

The corpus of the intellectual property rights, which constitutes the concept of the “WMFH” doctrine according to the presented dual division of works, depending on the circumstances in which they were created, is illustrated in Figure 1:



Any work or creation created in one of these two ways, on the basis of a previously concluded contract in writing, signed by both parties, implies that they have agreed to submit the work under the rules and principles on which the WMFH doctrine is based (Merrills, Fisher, 2006).

From the point of view of intellectual property rights, and in the context of the WMFH doctrine, these are two types of works created in employment relationship or by order, the author of which is considered the employer /orderer (trade company, organisation or sole proprietor), and not the employee-author (Copyright Act, 1976), i.e. the one who invested in the creation of the work/creation, and not its creator (Stim, 2000). The theory lists several factors that determine whether a work will qualify as a "WMFH", and these are (Posh, 1989):

∗ whether the author paid for the work he created?;

∗ whether the creation of the work is at the will of the employer?;

∗ whether there a clear contract of service or order contract (this is especially important in terms of the author's restriction on being engaged or hired to perform other related or the same creative activities for another person?;

∗ whether the author adhere to working hours and is under the constant supervision and control of the employer?;

∗ whether the employer timely pay the remaining duties (personal income tax, etc.) to the author-employee?;

∗ whether the work is created at the place where the employer performs its activity?;

∗ whether the contract provides for a clause that if the work due to certain circumstances cannot be qualified as a work of employment relationship, it should still be treated as an act of employment relationship (Rich, 2008).

It can be sublimated that a work can fall under the "WMFH" doctrine in two cases:

∗ when the work is created by an employee within the scope of his/her work obligations on the basis of an contract of service or

∗ when the work is created by an independently contracted person-executor, on the basis of a written contract concluded between the executor and the orderer of the specific work (contract for services) (Friedman, Rajapakse, 2005).

In the second case, in order for a specific work created by an independently contracted person-executor to be submitted under the “WMFH” doctrine, two conditions must be met: the work should be falling under one of the categories of works that is specially ordered or a work for the creation of which an order has been issued, and which would be a contribution, i.e. part of a collective work such as movie or other audiovisual work, translation, additional work, compilation, text of instructions, test, questions answering on test or atlas, and there is a written consent that the parties agree that the work/creation should be falling under the specified doctrine, but before the work is created (Kenneth, 2000).

The conditions and circumstances in which the work or creation were created determine the position of the employer towards the specific work, i.e. its ultimate goal, the right of that work to belong to him, and not to his employee who created the work.

According to the doctrine, in order for the employer to be able to acquire the treatment of the first holder of the rights to a specific work, it is necessary to meet three conditions, as follows (Bently, Sherman, 2004):

∗ the work to be created by an employee

∗ the work to be created within the framework of an employment relationship, and

∗ there is no contract on the basis of which the parties have agreed otherwise.

The third condition, in addition of requiring the parties not to agree otherwise, has a broader meaning, in terms of the position of the employee and his income, which can greatly affect his duty of loyalty to the employer (Burk, 1995). From the case law, this is the case with Cramer v. *Crestar Fin. Corp., 38 U.S.P.Q.2d 1684 (4th Cir. 1995)* (Burk, 1995), where Cramer, employed as a Director of Supervision in the Development of Information Systems for the Sale of Software (Computer) Programs, decided to work outside of working hours, i.e. at home, to create computer programs, which was certainly not part of the description of his work tasks.

Despite the fact that he created the work at home, and outside the scope of his work responsibilities, the court found that the computer program he developed had the treatment of a contract for services, because the position in which he was employed accurately showed that his responsibility was wider and his income was considered sufficiently motivating to work in the interests of the employer.

In theory, there are criticisms about the recognition of the employers authorship, i.e. his treatment as an original holder of the rights to the work or creation created by his employee. An exception to this is provided in cases where the parties have agreed otherwise. Nevertheless, criticism persists precisely because of the Legislature's firm stance, most notably in British law, which does not provide additional conditions to encourage the creator to create, especially since his natural and moral rights are not recognised (Bently, Sherman, 2004). These criticisms are often refuted with the explanation that the employer is always in a better position than the employee and can exploit the work in a more rational way. For this reason, it is considered that if the employer were considered as an author, it would motivate him to invest in the potential and knowledge of his employees as his support to them (Bently, Sherman, 2004).

Due to the complexity of this issue and the inability to anticipate in advance all the principles and conditions required for a work to be treated in a work created in a employment relationship, in the *common law* countries specifically in the United States, judicial practice also contributes through extensive interpretation of this issue. Thus, in the case of Community for Creative Non-Violence v. Reid, the Supreme Court, after establishing the basic principles and conditions on which the WMFH doctrine is based, proceeded to consider other circumstances, of which it considered that the decision making depends on, whether a person was in a employment relationship. The determination of those circumstances first served as a basis for distinguishing the treatment of a specific work, whether it was created within the employment relationship or the work was created by order, and only then in determining the person to whom the rights to the specific offense belong. Those circumstances referred to (Posh 2000):

∗ determining the necessary skills to create the specific work;

∗ the origin of the instruments and means through which the creation of the work took place;

∗ the place where the work was created;

∗ the duration of the established relationship between the parties;

∗ the scope of the discretion provided between the parties;

∗ method of payment;

∗ whether the work is part of the employee's job description;

∗ whether the work is part of the registered activity of the employer;

∗ whether additional compensation is provided for the employee;

∗ employee tax treatment;

∗ whether the work was created within working hours (Fafard, 1997), and

∗ whether the work is based on information that was considered a trade secret (Fafard, 1997), etc.

The discussions that took place and the solutions that were adopted during the hearing by the Supreme Court in the case of Community for Creative Non-Violence v. Reid, in relation to many hitherto unresolved issues in both theory and practice, has had a major impact on further consideration of this issue, especially given that case law in the United States is a source of law.

In theory, in addition to lawyers, many economists have shown interest in researching this issue by studying the economic aspects of the WMFH doctrine.

Hardy saw the reason for this in the very beginning of his analysis, that the study of this issue has a sound economic basis, explaining the doctrine "WMFH" as the existence of tension, i.e. the strained relationship between the "creator and exploiter of the copyright." (Hardy, 2001). In contrast, Towse believes that despite the fact that this view is supported by a number of economists who analyse and explore the economic aspects of copyright, including Landes and Posner, he remains more reserved, and with a dose of suspicion sees the claim that there is no harmonious relationship between the parties (Towse, 2001). He went on to say that "the long-standing copyright of the employer created by an employee under a contract for services, was the basis of the WMFH doctrine, and stressed that it "... is of particular interest to the labour market", especially in the culture sector" (Towse, 2001). Namely, he enters in the form the contract that regulates the legal relationship and says that "in the labour market for actors it is well known that this issue is regulated by noncontinuous contracts of service, self-employment contracts and honorary contracts." Hence, it is evident that Towse advocates views that largely relate to the second segment of the doctrine, that is, to the rights to work created by order (contract for services).

Despite the nuances of different views, there is no doubt that the legal regulation of this issue is to some extent a logical syllogism of the numerous economic analyses and conclusions drawn that speaks of the economic interests of both parties.

Although the difference between a contract for services and a contract of service from an economic point of view is almost non-existent, from an authorial-legal point of view it still exists in many segments. This difference is particularly coming to the fore in the countries of the European continental legal system (Bell, 2008). In these legal systems, including our, there is a clear distinction between works created in employment relationship and works created by an order, due to which they have different legal treatment.

The study of the WMFH doctrine, in terms of its representation in the theory and jurisprudence of *common law* legal systems, is particularly important for understanding the positive aspects of studying the countries of the continental legal systems.

In this regard, the basic difference is pointed out at the beginning, and that is the fact that in the European continental legal system, the author can only be a natural person, and not a legal entity or other forms of collectivities, due to which they cannot be original holders, but only derivative holders of the (material) rights of those works. In the legislation of the countries of the European continental legal system, the rights to work created in employment relationship or on the basis of a order contract are not fully transferred from the employee /executor of the employer/ orederer. In these countries, including the Republic of Macedonia, a distinction is made between the terms "author/inventor of the work/invention" and the term "holder of the rights to a particular work/invention". In the first case, the employee is the author of the work which, despite the transferred material rights to the employer, retains the moral rights. In the second case, the employer is the sole holder of the material right of the author only, because the moral right is, as a rule, non-renounceable. An exception when the moral right is transferred exists only in the event of the author's death, when it is transferred to his successors under the rules of inheritance.

This is not the case with *common law* countries, where the employer/orderer is considered the author, the original copyright holder, to whom all copyrights are transferred, including moral rights (Guide to the Copyright and Related Rights Treaties, 2003), unless otherwise agreed by the parties.

These differences in theory are often the subject of discussion and effort to harmonise the rules governing this issue, and as an example of this, and at the same time as a good starting point, the Directives that regulate the rights of computer programs (Bently, Sherman, 2004), for which there is a fundamental harmonisation between national legislations aimed at creating a homogeneous legal framework for regulating the issue of computer programs from employment relationships.

3. CONCLUSION

Based on the above analysis, it is evident that in the countries of the European continental legal system the two segments of the "WMFH" doctrine have different legal treatment, which stems from the fact that the rules governing intellectual work created in the employment relationship are based on principles of intellectual property law and labour law, while works created by order are regulated by regulations based on the principles of intellectual property law and the law of obligations, where the form of the contract is of a contractual nature.

Due to the complexity of these two issues that require comprehensive analysis and study of legal solutions, conclusions, their applicability in practice, as well as the views of science *de lege lata*

and *de lege ferenda*, the subject of this paper was only one segment of the doctrine "WMFH", i.e. only the works that have been created within the employment relationship.

This approach is in line with the principles of the European continental legal system, which treats these two issues both in theory and in practice as two incompatible institutes, which can be seen from the abovementioned, which is not the case in *common law* countries.

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