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The University Academic as a Fiduciary – Where to following University of Western Australia v Gray?

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Abstract

The recent Full Federal Court decision in University of Western Australia v Gray ((2009) [2009] FCAFC 116; 179 FCR 346) is the most recent episode in an emerging saga concerning the ownership of an invention made by an academic member of staff whilst in the employment of a higher education institution. With only two Australian decisions exploring this topic (the other being Victoria University of Technology v Wilson [2004] VSC 33; [2004] 60 IPR 392) having divergent results, the purpose of this article is to examine these two cases in the historical context of an employee's fiduciary obligations. The answer as to when an employee owes fiduciary duties sends a very clear message about the nature of the employer/employee relationship, and fundamentally, the resolution of the cases sends a message to both career academics and university administrators as to how their affairs need to be structured so as to maximise the personal interests of each. Moreover, the authors consider that the decision in University of Western Australia v Gray has the potential to reconfigure the employment relationship in Australia, most particularly in relation to intellectual property ownership, but more generally too.

1. Introduction

Fiduciary duties are said to be concurrent to those expressed or implied into a contract of employment.^[1] As such, they form part of the general matrix of rights and obligations of parties to employment. In the course of this article, a very specific illustration of this matrix will be examined, the extent to which academic employees of a University can be said to be fiduciaries and owe fiduciary obligations. The answer to this should illuminate the circumstances in which such an employee will personally own an invention, as against when the University will own such a discovery. Two decisions on the topic in recent years^[2] attest to the increasing commercialisation of universities and a new creed (advisable or otherwise) within our higher education sector in favour of making the discoveries of academics the property of universities. Whilst our focus here will be on the university context, to ask about the nature and extent of fiduciary duties is to ask fundamental questions of each participant in employment: what can an employer expect of an employee and what can an employee expect of their employer? With this context in mind, the structure of this article will be as follows:

First, it will consider the evolution in the case law of fiduciary duties in employment and the historical status of an employee. It is this examination that raises the context of how the relationship between the employer and employee directly impacts on what fiduciary duties are owed;

Flowing from this, a discussion of the duty of trust and confidence will be given, with these first two sections forming the foundation for the analysis of the two recent decisions;

The final section will then critique these two cases, and explore why in the 2009 case of *University of Western Australia v Gray*^[3] the University was unable to claim ownership, whereas only five years earlier, in *Victoria University v Wilson*^[4] a contrary result was given. With the Government reported as expressing a view that Gray's case could have serious implications for Universities,^[5] the developments that flow from these decisions may well significantly affect the academic landscape and, in hindsight, be recognised as a watershed moment in the understanding of the relationship between the university as employer and the academic as employee. Critically, it will be concluded that the Full Federal Court's view in *Gray* represents a modern and progressive understanding of the status of the employee. In contrast, the decision in *Victoria University* represents a decision based on ancient paradigms evolving from, and limited by, the law of master and servant.

2. Status and Contract

The existence of fiduciary duties in employment is an inconsistent and frequently surprising area. Consider Blackstone's attempt to give employment a doctrinal basis in his Commentaries. He characterised employment as one of the four 'great relations in private life' along with husband and wife, parent and child and guardian and ward.^[6] From this, he explained that a master has an action against both the servant and his or her new master if the servant departs service for a new master. However, the justification for this is not that of the master's status. Rather than ask a question of status (i.e. 'how dare you leave someone who occupies the same relational category as your father?') he simply says,

the reason and foundation upon which all this doctrine is built, seem to be the property that every man has in the service of his domestics; acquired by the contract of hiring, and purchased by giving them wages.^[7]

Thus, for Blackstone the right to compensation for the loss of an employee's services is founded in property (status) but the mechanism of an employer's recovery is fundamentally contractual. That one should make ongoing payments to an employee in the form of wages for something one already owns is a quirk specific to employment and a contradiction that drove Blackstone to qualify his proposition with the word 'seem'. Whether employment is a predominantly contractual or property based relationship is a question that has been answered variously by law and equity over the years and as a result, a multitude of devices have developed to support the rights of employers and employees in specific circumstances.

Doubtless, Blackstone developed his ideas about employment with reference to the early principle stated by Chief Justice Holt in *Hern v Nichols*, one of the early vicarious liability cases:

The merchant was answerable for the deceit of his factor, though not *criminaliter*, yet *civiliter*; for seeing somebody must be a loser by this deceit, it is more reason that he that employs and puts a trust and confidence in the deceiver should be a loser, than a stranger.^[8]

This influenced the way Blackstone recognised status in employment and it has clear significance for the modern law. He said:

If I pay money to a banker's servant, the banker is answerable for it: if I pay it to a clergyman's or a physician's servant, whose usual business it is not to receive money for his master, and he embezzles it, I must pay it over again. If a steward lets a lease of a farm, without the owner's knowledge, the owner must stand to the bargain; for this is the steward's business. A wife, a friend, a relation, that use to transact business for a man, are *quoad hoc* his servants; and the principal must answer for their conduct: for the law implies, that they act under a general command; and without such a doctrine as this no mutual intercourse between man and man could subsist with any tolerable convenience.^[9]

Blackstone says here that there is a first class of servants who have a recognised status as being able to accept money on behalf of their masters while there is a second class that payers have no legal right to trust. Blackstone's insight was to consider the manifest variability of employees and the functions they play in relation to their employers and third parties — a variability brought out in the two university cases. Servants in the first class are akin to family who transact on behalf a master and for whom the master is directly responsible — this is where Blackstone writes unmistakably about status. The master of a servant in the second class is not required to make amends to the payer by accepting that he has been paid because no relationship of trust can rightly be assumed by the payer between master and servant such that money could be left with the servant. In this way, Blackstone's position is a stepping-stone to the modern law. He said that certain kinds of servants are fiduciaries or at least occupy a position of special trust, which must be inhabited by the servant for a third party to have a remedy. As we will see, the modern position is, of course, that certain aspects of or transactions within all employment relationships can have such a nature, and the academic relationship is no different. Thus, all employees who steal from their employer will be regarded, under the modern law as breaching a fiduciary duty^[10] and third party transferees of stolen money can be regarded as recipients of trust money and will be liable to the payer.^[11] In the context of the present discussion, the critical question is just when a university employee will occupy that position of special trust that will find that person liable to the employer for any discoveries or creative output. Is the status of the employee such that the fiduciary duties include the handing over of what is produced, or has the status been reduced or ameliorated by the context of the contemporary demands within higher education?

Status has on occasion been ignored by the courts in the very moment when it might be expected to shine. We see this in how the House of Lords handled the misconduct of employees. In *Bell v Lever Brothers Ltd*^[12] it will be recalled that Bell was Chairman of the Niger Company and negotiated a 'golden handshake' agreement with the company. It transpired that Bell, and the Vice-Chairman, Snelling, had both been trading for their personal benefit using information that they had come by during the course of their employment with the Niger Company. The question was whether the golden handshake agreement was void on the grounds of mutual mistake. This doctrine requires that if both know the truth, neither would have entered the contract. The case of *Bell* has been transposed into a general common law principle regarding employment, namely, that an employee is not under a general duty to disclose misdeeds to their employer. Lord Thankerton in *Bell* noted that Bell and Snelling were not employees and said:

in the absence of fraud ... I am of the opinion that neither a servant nor a director of a company is legally bound forthwith to disclose any breach of the obligations arising out of the relationship so as to give the master or the company the opportunity of dismissal ...^[13]

The Lord Justice also added: 'there may well be cases where the concealment of the misconduct amounts to a fraud on the master or company ...'^[14]

The English law has displayed, somewhat quixotically in recent times, a status-based approach to misdeeds of employees when they exhibit a fiduciary character. If a transgressor is an employee who occupies a senior role^[15]

or is a director of a company^[16] a positive obligation to disclose a breach of a fiduciary duty will arise. We see a similar rationale in Australia.^[17] Of course in earlier times, a footman as well as a butler owed a duty of trust and confidence to the master of the household, but the butler's was the greater because he had access to his master's silverware and alcohol. The issue raised in the two university cases was whether academic seniority equated to a special duty? The answer must come from factors beyond mere recognition through national and international peer review, or the capacity to attract outside funding, as a fiduciary duty can only be found when seniority engenders the sensitivity of a role. This means that there need be investigation of the particular senior role in question and the question asked: 'Did this senior employee owe a duty to this employer because of the especial trust reposed by each in the other?' Outside of the university context, Australian courts have tended simply to consider whether an employee's conduct was fraudulent (in which case it is serious misconduct justifying dismissal).^[18] In other cases, courts have expected a higher level of fealty from employees in sensitive or senior roles,^[19] and this can be said to represent the English position. What will be demonstrated here is that, in the university context, the examination has become far more subjective. I.e. does the contractual relationship expressly or impliedly import obligations, and are those obligations, fiduciary in nature? By comparing *Victoria University* with *Gray*, we will see that the earlier case resonated with an appeal to the master/servant paradigm, and how that status led to the fiduciary obligation being owed. By contrast, the decision in *Gray* was argued on a narrow contractual argument, with this implicitly recognising the more contemporary view of the fluidity within the bargaining power between the University and the senior high-profile research academic.

3. Duty of Trust and Confidence Imposed on Status

Building on the historical foundation of status is the contractual duty of trust and confidence. This arises from British case law in the 1970s and is recognised as an implied term. The aims of equity, properly conceived, have only been tangential to the development of an implied

contractual duty of trust and confidence: the words 'trust' and 'confidence' have been borrowed from the vocabulary of equity but the judicial inquiry has related in the main to whether breach of an implied term has occurred, not a discussion of a fiduciary duty owed by one to another. That said, it is nevertheless worth considering as part of the general matrix of non-statutory employment rights and obligations. Critically, by looking at this from the perspective of the employer, even though the duty can be considered mutual, gives some impression as to the current view taken by the Australian courts as to the balance to be drawn between university employers and academics.

There has been judicial support for the idea that, as a matter of contract law, an employer will not conduct themselves, without reasonable cause, in a manner likely to damage or destroy the relationship of confidence and trust between the parties as employer and employee.^[20] Sims makes it clear that while the duty of trust and confidence draws on equitable concepts, its development, and legal meaning have not been an extension of fiduciary duties in employment.^[21] It is separate and based on an established breach of an implied contractual term. The law recognises that an employee who can establish breach of such an implied term is entitled to regard themselves as wrongfully dismissed from their employment. The best explanation of what is encompassed by an implied term of trust and confidence was given by Justice Olsson in *Easling v Mahoney Insurance Brokers Pty Ltd.*^[22] In connection with a discussion of constructive dismissal his Honour said:

The authorities establish the concept that there is implied in a contract of employment a term that the employer will not, without reasonable and proper cause, conduct itself in a manner calculated or likely to destroy or seriously damage the relationship of confidence and trust between employer and employee. An intention to repudiate need not be proved. Rather, it is a matter of objectively looking at the employer's conduct as a whole and determining whether its effect, judged reasonably and sensibly, is such that the employee cannot be expected to put up with it.^[23]

Until *Thomson v Orica*,^[24] the prevailing Australian view was that the duty of trust and confidence would not support a remedy for breach of contract because any such common law right is subsumed under a statutory right to unfair dismissal compensation.^[25] In that case, Thomson established that Orica had breached a mutual duty of trust and confidence by giving her tasks and duties of a reduced importance upon her return from maternity leave, and she successfully argued that Orica's breach of the implied term resulted in a wrongful dismissal and damages for breach of the implied term.

Another more recent decision indicates an increasing judicial acceptance that common law claims have a place and that common law trust and confidence is alive and well as a cause of action. In fact *Russell v Trustees of the Roman Catholic Church for the Archdiocese of Sydney*,^[26] suggests that common law causes of action will need to be much more clearly excluded by legislation for them not to be entertained by a court. In *Russell* in early 1982 the plaintiff, it was alleged, walked in on one O'Grady, a fellow employee of the Catholic Church and a housemate, who was allegedly on the floor in a compromising situation with three boys. It was further alleged that he left the room with the words, 'Well, I'll leave you to it'. O'Grady was not charged subsequently in relation to the alleged 'walking in incident' but of other incidents of sexual misconduct and was convicted of those. Russell was charged and arrested but not convicted. In early 2003, he was dismissed from his employment as Director of Music at St Mary's Cathedral after an internal church investigation into the misconduct in the house that he shared with O'Grady. In mid 2004, Russell was re-instated at St Mary's. Throughout the period 2002-2004 he was on a pension and he was also paid the income he would have earned in the period. He was later reinstated by order of the NSW Industrial Commission.

Nevertheless, Russell brought a claim that his employer had breached an implied term of trust and confidence that was independent of his right to bring an action under the NSW unfair dismissal provision that was then in force. Justice Rothman agreed and found that in determining a cause for Russell's termination and purporting to use the investigation as a means of establishing the truth of that cause, the Church breached its implied duty not to act in a manner that was calculated and likely to destroy or seriously damage the confidence and trust of the employment relationship. Russell, however, could not demonstrate damages in light of the previous payments and reinstatement.

An English court has said that an employer has a legally recognised duty to be 'good and considerate'^[27] but as a widely recognised implied term, this has had a chequered history. It also remains open whether or not there is recognised in Australia a mutual duty of trust and confidence.^[28]

In a recent decision of the Supreme Court of NSW in *Heptonstall v Gaskin (No 2)*,^[29] Justice Hoeben expressed the view that there had been less need to develop a duty of trust and confidence in Australia because cases such as *Tame v Annetts*^[30] and *Gifford v Strang Patrick Stevedoring*^[31] had, unlike similar cases in the UK, recognised that an employer's duty of care extended more widely than in the United Kingdom.^[32]

4. Duty of Trust and Confidence Distinguished From Fiduciary Duties

Building upon this notion of trust and confidence, which is not of itself fiduciary,^[33] the English Court of Chancery developed the notion of the fiduciary duty — the original cases were based on an abuse of confidence. Courts would intervene where the person occupying trust and confidence took an advantage of their position — the term fiduciary deriving from the Latin 'fiducia', meaning trust.^[34] Depending on the context of the facts, the trust inherent between the employer and employee has led to the accepted recognition of a fiduciary relationship in certain contexts.^[35] The courts have identified a number of duty incidents specific to the employment relationship:

- to be faithful in service;^[36]
- to attend as required;^[37]
- to not misuse confidential information;^[38]
- to not engage in misconduct;^[39]
- to act in the employer's best interests;^[40]
- to work with reasonable care and skill;^[41]
- to obey lawful demands;^[42] and, critically, in the present context,
- to hold inventions made during employment on trust for the employer.^[43]

For example, in the specific context of inventions, and in an English case of some note, *University of Nottingham v Fishel*^[44] Justice Elias was required to rule on whether an embryologist employed by the university but working in private clinics abroad and directing colleagues in such work had breached a fiduciary duty owed to the university. His Honour found that Dr Fishel was in conflict with his duty to act for the university in respect of directing the work of employees of the clinic. In so finding, however, Justice Elias noted that:

'it is important to recognise that the mere fact that Dr Hershal is an employee does not mean that he owes ... fiduciary duties.'^[45]

Thus, whilst the relationship may be fiduciary, it is a common misconception to think that because the law recognises a relationship as fiduciary, this acts as a touchstone to make everything — every incident in that relationship — fiduciary in nature. *University of Western Australia v Gray* ruled that this is not so and that the nature of the individual relationship is critically important. The general equitable rule that employees must not deal for themselves with a view to making a personal profit arises due to the equitable duty. It may and does arise within the context of employment, but not every employment relationship. It is a duty among many in employment and each employment is a world unto itself. Sir Robert Megarry VC made a similar point when he said in *Tito v Waddell* (No 2): 'Equity bases its rules about self-dealing upon some pre-existing duty that subjects the self-dealer to the consequences of the self-dealing rules.'^[46] This makes the equitable duty to not self-deal a clear and knowable duty which, when breached, is as wrong to equity if it is breached by a solicitor acting for trustee^[47] or a guardian for a ward^[48] or indeed an employee acting for employer. Thus, in the particular context of university employment, it was observed by Reid that:

Judges must therefore be cautious, when determining whether a fiduciary relationship exists in a particular case, as to whether the academic's status as 'professional employee' in fact reflects the reality of his or her relationship with the university. If a fiduciary relationship does exist, judges must be cognisant of the fact that not every opportunity that is exploited by an academic will be the subject of a fiduciary duty, even where the academic is working within his or her field of endeavour.^[49]

Therefore, what are the key factors that see the employment relationship evolving from one of status to a duty of trust and confidence to one where fiduciary obligations are owed? What are the elements in the university relationship that will see consummation of that, or conversely, a failure of fulfilment?

The issue is one of degree, involving inquiry into whether the relationship in question needs protection exceeding that prescribed by the terms of the employment contract. So ultimately employees owe fiduciary duties to their employer if the nature of the relationship demands a standard of loyalty exceeding the duty of fidelity prescribed by the contract.^[50]

Orthodox examples are easy to identify. An employee is not permitted to use the employer's material to build a private residence,^[51] nor can employees contracted to produce specific property leave their employment and retain that property for themselves.^[52] In resolving arguments on these scenarios, two competing principles come to the fore — one, is the right of the employee to spend her or his leisure time as he or she sees fit, with this including profit making endeavours, as against the notion that the employee must act in the best interests of the employer. And, whilst there is no doubt that a person employed to invent or design using the resources provided by the employer will hold that invention on trust for the employer,^[53] ultimately the question in the university context is what is the specific content of the fiduciary obligation vis-à-vis employee to employer, not simply whether there is a fiduciary duty.^[54]

5. *Victoria University of Technology v Wilson*^[55]

In this case, two academics from Victoria University of Technology created a patentable invention that would allow an electronic form of global trading. A person outside of the

University — but who knew of the academics from their association with the institution — approached them about the idea. The academics then gained the assistance of a former student to assist with the creation, and it was these three people, and the associated corporate entities established to exploit the invention that were sued by the University. It can be noted that the University became aware of the invention after another academic came across the relevant website and broadcast on the University's intranet site an email questioning how this work was consistent with the academic's role within the institution.^[56] Victoria University of Technology alleged that the opportunity to create the patentable invention arose out of the academic's role within the University, and that the two academics and the enlisted assistance held the benefits of the invention on trust for it. The University asserted a number of grounds:

First, that the intellectual property policy of the University created an implied term that all inventions created by academics would belong to the University;

Second, irrespective of the intellectual property policy, there was an implied term in the contracts of service that employees would not enrich themselves at the expense of the University; and

Third, and most critically for our discussion here, that the academics owed fiduciary duties of loyalty, and this had been breached by misappropriating the opportunity, to the detriment of the University.^[57]

The University did not succeed on the first ground. The IP policy of the University had not been appropriately disseminated to the employee's knowledge and for this reason, could not be considered to be part of the employee's individual contract. Similarly, the second ground was not available to Victoria University. Whilst the employees were engaged to undertake research in the field of social science, the development of this particular program fell outside what could be considered their normal duties.

However, the University succeeded on the third ground. Nettle J began by noting that the extent of the academics fiduciary duty depended very much on context. A lowly skilled labourer would rarely have restrictions placed on what he or she could do outside of their work hours, whereas by contrast, the chief executive officer of a major publicly listed company could reasonably expect to have very significant limitations on what he or she could do in their free time.^[58] His Honour summarised:

Some employees, particularly senior employees, do owe fiduciary duties to their employers. But others do not. The scope of an employee's fiduciary duties to the employer depends as much as anything upon the nature and terms of the employment. "The fiduciary relationship, if it is to exist at all, must accommodate itself to the terms of the contract so that it is consistent with and conforms to them. The fiduciary relationship cannot be superimposed upon the contract in such a way as to alter the operation which the contract was intended to have according to its true construction."^[59]

With this statement of the law, which is uncontroversial, the application becomes critical. What is the modern role and status of an academic? Where on that continuum from manual labour to highly paid CEO, does the academic sit? In comments that will resonate with the college, Nettle J noted that the work of senior academics is the very antithesis of a nine to five existence.^[60] Much work, and significant amounts of research will be undertaken off campus and outside of normal working hours. But as the judge notes:

Yet, in those respects the demands imposed upon senior academics are not dissimilar to the sorts of demands which operate in a number of professions.

And these days it is difficult to think of many professions in which it would be conceived that a salaried employee is necessarily precluded from undertaking paid work outside ordinary hours for someone other than their employer.^[611]

After this recognition of the academic's life, Nettle J considers the modern university, with its far greater reliance on casual staff and the inevitable politicisation and commercialisation that has occurred.^[621] Business practices are now the norm, the structures designed, at least in theory, to achieve the commodification of education, rather than an investment in learning. This leads to a diminution in the standards of loyalty and service expected from the employee.^[631] Nevertheless, professional employees do owe fiduciary obligations, and are not entitled to personally profit from their position, and should eschew any conflict between interest and duty.^[641]

Given this background, was there a breach? The answer given was yes. Five points were critical to that finding:^[651]

- The opportunity came to their attention in their capacity as an academic;
- It was an opportunity that could have been exploited by the university — it was in its field of expertise;
- Initial work was begun whilst the academics were university employees;
- By deciding to exploit the opportunity themselves, they took something which belonged to the university; and
- Consistent with fiduciary obligations, honesty, or knowledge of breach was irrelevant.^[661]

The decision, we would respectfully suggest, is wrong. Whilst one may look at this case and consider it an orthodox application of fiduciary principles, the suggestion is that the result equates the fiduciary obligations of the employee with that of other recognised fiduciary obligations — as lawyer and client, company and director, and trustee and beneficiary. Like Riley,^[671] we do not suggest that Nettle J 'reached an unpredictable or unprincipled decision.' However, the result was that the contractual obligations owed by the academic Wilson (and others) were supplemented by the ephemeral notion of the fiduciary obligation, with this implying the status enjoyed historically by the master in relation to the servant. Today, in contemporary academia, a view that the employer is the master, and the employee a servant working and being directed at the behest of their master, is manifestly inaccurate. Whilst the opportunity came to Wilson by reason of his connection to Victoria University, the development and wealth generation that flowed was not incidental to his occupation as an academic. There is much in the misreading of an academic's role in *Victoria University* that would lead us, however unsatisfactorily, to the conclusion that an academic shares more in common with an independent contractor than an employee. However, the authors' observation in disagreeing with this is that seldom does a contractor on a building site or a consultant working from home strive after tenure as assiduously as a junior academic does.

6. *University of Western Australia v Gray*^[681]

For present purposes, the prolix facts need only be summarised:

- From 1985 to 1997, Gray was employed by the University on a full-time basis to teach and research;
- In 1997, his employment was altered to a 30% fractional appointment;

- His main area of expertise was in research into liver cancer and certain inventions were discovered relating to this;
- In the late 1990's, the University of Western Australia became aware of the possibility of commercialisation of the technologies; and
- By 2000, Dr Gray was a director of a public listed company that had acquired the intellectual property rights arising out of the inventions.

Despite the University of Western Australia initially recognising that it would be difficult to establish any interest in the intellectual property rights due to the 'messy lineage',^[69] a decision was made to litigate after the receipt of external and independent legal advice that there were a number of viable causes of action.

6.1 The Decision of the Trial Judge, French J^[70]

In a trial that lasted 50 days, containing more than one thousand documentary exhibits, and 4586 pages of transcript, ultimately it was held that Gray was not liable to the University. It could not be established, no doubt partly due to the 'messy lineage' that the inventions were made during the course of employment with the University, and absent any express agreement, any inventions made by academic staff belonged to the academics as inventors.^[71] On the specific issue of fiduciary obligations^[72] (contained within a lengthy judgement of some 1619 paragraphs), French J began his analysis by accepting and reiterating the points made by Nettle J in *Victorian University of Technology v Wilson* about the contemporary role of academics.^[73] The position has changed, and subject to an employee avoiding any conflict of interest, the academic is entitled to pursue paid work outside of university hours, provided that it does not interfere with their work role within the university.^[74] However, this case was significantly different in one regard. In *Victoria University*, the academics had not been engaged to undertake the kind of work that would lead to a patentable invention — it was that the conduct of the academics and the choices they made that led to the breach of fiduciary duties.^[75] By contrast, the scenario in *University of Western Australia v Gray (No 20)*, involved academics who were directly engaged to undertake research that could lead to patentable inventions. French J comments:

[*Victoria University v Wilson*] left open the question whether academic staff of the university engaged to carry out research which could result in patentable inventions as a general proposition hold the rights to such inventions or whether the university would be entitled to those rights.^[76]

With no direct precedent to apply, his Honour began by considering the commentary of Monotti and Ricketson^[77] who speculated that different principles might apply in the university setting due to the 'notion of academic freedom, shared ownership and free exchange of research results.'^[78] For these reasons, which French J considered to be critical, mandated a different approach to universities as against an industrial setting.^[79] Intriguingly therefore, we have, in both *Victoria University* and in *University of Western Australia*, the recognition that the life of the academic has become far more influenced by general notions of the professional public service and 'normal' business and commercial paradigms. However, the differences that remain within the education sector still demand an analysis that appreciates those fundamental freedoms that academics inherently cherish, including the capacity to create without interference or direction. For this reason, a person engaged to carry out research that may lead to invention may well be considered to have a duty to research, but not necessarily to invent.

[T]he question whether or not to invent will be a matter of choice. Given the nature of universities and the public purposes served by such as UWA, there is no basis for implying into the contracts of employment of its academic staff a duty not to disclose the results of research even if such disclosure could destroy the patentability of an invention. Absent such a duty and given a choice to invent or not invent, it is difficult to see upon what basis there can be a presumption that a term will be implied as a matter of law that the university has an entitlement to take the inventor's property rights in relation to the invention.^[80]

Accordingly, absent any term in a contract, there was no general proposition that universities will be entitled to the rights of inventions developed by staff in the course of research.^[81] No breach of fiduciary duty was established.

6.2 The Decision of the Full Federal Court^[82]

The Court dismissed the appeal by the University albeit on a rather narrow ground. The unanimous view of the Court was that Dr Gray did not have any duty to invent, that no implied term could be incorporated into his employment contract and given this, and in distinguishing *Victoria University v Wilson*, no fiduciary duty could be found to exist. Two reasons led to this conclusion. First, a distinction could be drawn between the university as an employer and another employer. 'To define the relationship of an academic staff member with a university simply in terms of a contract of employment is to ignore a distinctive dimension of that relationship.'^[83] The commercial activities of the University had not replaced its traditional role as a public institution of higher education. Dr Gray was not required to advance a commercial purpose in undertaking research.^[84] Furthermore, there was the distinctiveness of academic employment and the freedom an academic has in choosing the line of research and publishing as they see fit — this sitting uneasily with the requirement to maintain secrecy surrounding any confidential information obtained through the position.^[85] '[Dr. Gray] was not constrained by a secrecy obligation.'^[86] Any remedy to this required legislative intervention or express contractual arrangements.^[87]

Having found no implied duty to invent, the fiduciary argument was dismissed quickly. Unlike *Victoria University*, this was not a case of misappropriated opportunities, and if no implied term existed to allow the property in the inventions to belong to the University, no fiduciary obligation could be maintained.^[88] Little assistance could be obtained from that decision, though the Court was clear in stating that it was not necessary to consider the judgement of Nettle J in *Victoria University*.^[89]

We suggest however, that there is a more fundamental reason for the divergence between the cases. The judgment of Nettle J implicitly harks to the ancient paradigm of master and servant in finding that the employee was a servant entrusted with the inventions they made whilst employed. This is rooted in the ancient trade protection of the guild system: a journeyman was restrained from setting up his own business, be it in book-binding or tailoring, until he had been conferred with the status of master himself. As noted by the Full Federal Court,

The fundamental idea said to inform when and why an employee's trusteeship of an invention arises is not hard to find and is deeply rooted in the general character of what in times past was described as the master-servant relationship.^[90]

A contemporary view of labour and capital, an understanding of the distinctiveness of university employment all lead to the recognition that the status that once held the

employee as a fiduciary is now modified in light of the custom, employment practices and inherent values promoted by a particular role. All of these factors negated any view that Dr Gray should be required to account. The decision also should give some heart to many an employee who wearies of a 'credit rustling' boss. The conception of employment as a kind of hierarchical stasis, which gives an employer unfettered right to appropriate good ideas, is fast falling out of favour in the courts.

7. Conclusion

The status and role of the employee has changed, and with that the response of the law. However, and despite the evolutionary approach taken to the discussion in this paper, there is no doubt the status of the parties, the implied duties of good faith by an employer to an employee and the fiduciary duty owed by an employee to the employer all work together to fulfil the standards and precepts of the employment relationship. In the context of an employee's conduct rivalling that of the employer, equity steps in and finds the existence of an equitable duty to not self-deal; by protecting an employer's property equity maintains the asymmetry of the relationship overall. In *Victoria University v Wilson*,^[91] the Supreme Court of Victoria held that the employee had made a choice to take an opportunity presented to him in his capacity as an academic and exploit that for his own benefit. By contrast, the finding in *University of Western Australia v Gray*^[92] was that an employee could hold a property interest in an invention developed on their employer's time in circumstances where they were not employed to invent. Professor Gray's conduct did not fall within the rule against self-dealing and no special trust was found to exist such that would bind him as a fiduciary. The practical significance of this cannot be underestimated. In both cases, it was recognised that no longer could universities expect employees to be solely devoted 24/7 to their obligations as an academic. The relationship was more akin to that of the professional public service. Whereas the fiduciary obligation undoubtedly exists, the content of the fiduciary duties will undoubtedly be fact specific. On one level the relationship between employer and employee is more horizontally based — the employer is subject to an implied term that he, she, or it does not destroy the substratum of trust and confidence. Yet, at another level, the latter decision of *University of Western Australia* provides a vertical component to this union. With universities no longer privileged employers and staff no longer enjoying luxurious self-indulgence as to what they research and where they publish, and with terms and conditions largely indistinguishable from other public sector employers, and workload allocation and performance management providing a more directed, if not feudal workplace, employers have gained greater capacity to direct, but only in the context of specific hours and tasks as outlined in the contract of employment. Employers, be they universities or research companies, should feel more vulnerable as the result of the holding in the case. However, the result is not one-sided. The message it sends is clear. Just as parties can effectively oust a fiduciary relationship with a contract, an employer can just as surely assuage their vulnerability to an incidentally inventive employee by including the rights of a fiduciary nature with clear words into a comprehensive contract of service.

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^[1] James Macken, *Law of Employment* (5th ed, 2002) 141.

^[2] *University of Western Australia v Gray (No 20)* [2008] FCA 498; [2008] 246 ALR 603; 76 IPR 222 (Trial Judge) [2009] FCAFC 116; [2009] 179 FCR 346; 259 ALR 224; 82 IPR 116 (Full Federal Court); *Victoria University of Technology v Wilson* [2004] VSC 33; [2004] 60 IPR 392.

^[3] [\[2009\] FCAFC 116](#); [\(2009\) 179 FCR 346](#); [259 ALR 224](#); [82 IPR 116](#).

^[4] [\[2004\] VSC 33](#); [\(2004\) 60 IPR 392](#).

^[5] B Lane, 'Court backs inventor's IP claim', *The Australian*, (Sydney) 9 September 2009, Higher Education Supplement 24.

^[6] Blackstone, *Commentaries on the Laws of England*, Book 1 (Part 2), Chapter 14, 422.

^[7] Blackstone, *ibid*, 429.

^[8] (1701) 1 Salk 289.

^[9] Blackstone, *above n 6*, 430.

^[10] *NAB Ltd v Rusu* [\[2001\] NSWSC 32](#), [24].

^[11] *Black v S Freedman and Co* [\[1910\] HCA 58](#); [\(1910\) 12 CLR 105](#), 110.

^[12] [\[1931\] UKHL 2](#); [\[1932\] AC 161](#), 227 (Lord Atkin).

^[13] [\[1931\] UKHL 2](#); [\[1932\] AC 161](#), 231.

^[14] [\[1931\] UKHL 2](#); [\[1932\] AC 161](#), 231.

^[15] *Tesco Stores Ltd v Pook* [\[2003\] EWHC 823](#); [\[2004\] IRLR 618](#); *Attorney General v Blake* [\[2000\] UKHL 45](#); [\[2001\] IRLR 36](#); *Nottingham University v Fishel* [\[2000\] IRLR 471](#)

; and *Symbon Corp v Rochem* [\[1983\] 2 AER 706](#) (where the Court of Appeal held that an employee had not been under a duty to disclose to his employers his own misconduct but he had been under a duty to disclose a fraudulent misconduct of the subordinate employees with whom he had acted, even though that disclosure would have revealed his own misconduct to his employers).

^[16] *Fassihi and ors v Item Software (UK) Ltd CA* [\[2004\] EWHC 948](#); [\[2004\] IRLR 928](#); *Van Gestel v Can* – *The Times* 7 August 1987 (1987) CL 454; *Horcal Ltd v Gatland* [\[1983\] BCLC 60](#) (not overruled in [\[1984\] BCLC 549](#)); *Industrial Development Consultants Ltd v Cooley* [\[1972\] 1 WLR 443](#).

^[17] *Police Service Board v Morris* [\[1985\] HCA 9](#); [\(1985\) 156 CLR 397](#).

^[18] See *Baggett v Commonwealth Bank of Australia* [\[2001\] NSWSC 108](#); *Spillane v Commonwealth of Australia* [\[2002\] QSC 367](#).

^[19] *Weldon v Harbison* [\[2000\] NSWSC 272](#); *Co-ordinated Industries v Elliot* [\(1998\) 43 NSWLR 282](#); and *Concut Pty Ltd v Worrell* [\(2000\) 103 IR 160](#), 176 (McHugh J): 'Given his [Wells] senior status in the company's service and the nature and extent of the misconduct disclosed in the evidence and accepted by the primary judge, it was open to him to find that the employee had undermined the confidence essential to the ongoing relationship of employment. Prima facie, this had afforded a legal justification for the employee's summary dismissal.' but cf later in McHugh's judgment: 'The case is revealed for what it is: nothing more than the invocation of an ordinary remedy belonging to an employer who discovers a serious breach by, in this case, a senior employee of a fundamental term implied into an employment contract by force of law' (at 176) [emphasis added].

[20] *Burazin v Blacktown City Guardian* [1996] IRCA 371; (1996) 142 ALR 144, 151; *Daw v Flinton Pty Ltd* (1998) 85 IR 1, 3; and *Blaikie v South Australian Superannuation Board* (1995) 65 SASR 85, 102–106.

[21] Vanessa Sims, 'Is Employment a Fiduciary Relationship?' (2001) 30 *Industrial Law Journal* 101, 103. Consideration of this in another context can be seen in R B E Price, *The Employment Laws of Hong Kong and China* (2009) 161–175.

[22] [2001] SASC 22 (Unreported), Doyle CJ, Olsson J, Bleby J, 14 February 2001).

[23] [2001] SASC 22, [103].

[24] [2002] FCA 939; (2002) 116 IR 186.

[25] *Burazin v Blacktown City Guardian Pty Ltd* [1996] IRCA 371; (1996) 142 ALR 144.

[26] [2007] NSWSC 104 (Unreported), Rothman J, 19 February 2007).

[27] Per Lord Denning in *Woods v W M Car Services (Peterborough) Ltd* [1982] ICR 693; approved by Lee J in *Nettlefold v Kym Smoker Pty Ltd* (1999) 69 IR 370, 372; subsequently disapproved by the Full Bench of the Federal Court in *Cosco Holdings Pty Ltd v Thu* (1997) 79 FCR 566, 592.

[28] *Burazin v Blacktown City Guardian Pty Ltd* [1996] IRCA 371; (1996) 142 ALR 144, 154 (termination of employment as salesperson of advertising copy and being escorted from her office by police officers); but cf *Hollingsworth v Commissioner of Police (No 2)* (1999) 88 IR 282

, 318–319 (termination of employment as trainee police officer after it was discovered that she had worked as a stripper) and *Thomson v Orica Australia Pty Ltd* [2002] FCA 939; (2002) 116 IR 186

, 225 (demotion from account manager to transactional selling and denial of leave under a family leave policy). A recent example where a term of mutual trust and confidence is recognised as an implied term of Australian employment law can be seen in *McDonald v State of South Australia* [2008] SASC 134; (2008) 172 IR 256; SASC 134.

[29] [2005] NSWSC 30; (2005) 138 IR 103.

[30] [2002] HCA 35; (2002) 211 CLR 317.

[31] (2003) 214 CLR 269.

[32] [2005] NSWSC 30; (2005) 138 IR 103, 114–115.

[33] See Godfrey, 'Contracts of Employment: Renaissance of the Implied Term of Trust and Confidence' (2003) 77 *Australian Law Journal* 764; Jonathan Greenacre, 'The Continuing Rise of the Implied Term of Mutual Trust and Confidence' (2007) 13(3– 4) *Employment Law Bulletin* 28.

[34] See the comments by G E Dal Pont and D R C Chalmers, *Equity and Trusts in Australia* (4th ed, 2007) 98.

[35] *Mainland Holdings Ltd v Szady* [2002] NSWSC 699.

- [36] *Blyth Chemicals Ltd v Bushnell* [1933] HCA 8; (1933) 49 CLR 66.
- [37] *Adami v Maison de Luxe Ltd* [1924] HCA 45; (1924) 35 CLR 143.
- [38] *Ansell Rubber Co Pty Ltd v Allied Rubber Industries Pty Ltd* [1967] VicRp 7; [1967] VR 37.
- [39] *Farley v Lums* [1917] WALawRp 25; (1917) 19 WALR 117.
- [40] *EFG Australia Ltd v Kennedy* (1999) 46 AILR 5–225.
- [41] *Astley v Austrust Ltd* (1999) 197 CLR 1.
- [42] *Adami v Maison de Luxe Ltd* [1924] HCA 45; (1924) 35 CLR 143.
- [43] *Spencer Industries Pty Ltd v Collins* [2003] FCA 542; (2003) 58 IPR 425.
- [44] [2000] IRLR 471.
- [45] [2000] IRLR 471, [86].
- [46] [1977] 1 Ch 106, 230.
- [47] See *Phipps v Boardman* [1966] UKHL 2; [1967] 2 AC 46.
- [48] See *Clay v Clay* [2001] HCA 9; (2001) 202 CLR 410.
- [49] Tom Reid, 'Academics and Intellectual Property: Treading the Tightrope' [2004] *Deakin Law Review* 32, 38.
- [50] G E Dal Pont and D R C Chalmers, above n 34, 130.
- [51] *Concut Pty Ltd v Worrell* [2000] 176 ALR 693.
- [52] *Green v Bestobell Industries Pty Ltd* [1982] WAR 1.
- [53] *Sterling Engineering Co Ltd v Patchett* [1955] AC 534.
- [54] *Avtex Airservices Pty Ltd v Bartsch* [1992] 107 ALR 539.
- [55] [2004] VSC 33; (2004) 60 IPR 392.
- [56] *Ibid*, [69].
- [57] *Ibid*, [72].
- [58] *Ibid*, [144].
- [59] *Ibid*, [145], quoting from *Hospital Products Ltd v United States Surgical Corp* [1984] HCA 64; (1984) 156 CLR 41, 97 (Mason J).
- [60] *Ibid*, [146].
- [61] *Ibid*.

[62] Ibid, [148].

[63] Ibid.

[64] Ibid, [149].

[65] As noted in *University of Western Australia v Gray (No 20)* [\(2008\) 248 ALR 603](#), [155].

[66] By contrast the former student who assisted them was not held liable. He had not willfully closed his eyes to the academics breach of duty.

[67] Joellen Riley, 'Who Owns Human Capital? A Critical Appraisal of Legal Techniques for Capturing the Value of Work' (2005) *Australian Journal of Labour Law* 1, 9.

[68] [\(2008\) 248 ALR 603 \(Trial Judge\)](#); [\[2009\] FCAFC 116](#); [\(2009\) 179 FCR 346](#); [259 ALR 224](#); [82 IPR 116 \(Full Federal Court\)](#).

[69] [\(2008\) 248 ALR 603](#), [5].

[70] *University of Western Australia v Gray (No 20)* [\(2008\) 248 ALR 603](#).

[71] In addition to *Victoria University of Technology v Wilson* [\[2004\] VSC 33](#); [\(2004\) 60 IPR 392](#), French J also noted the two other Australian cases on employee inventions, these being *Spencer Industries Pty Ltd v Collins* [\[2003\] FCA 542](#); [\(2003\) 58 IPR 425](#); *Eastland Technology Australia Pty Ltd v Whisson* [\[2005\] WASCA 144](#); [\(2005\) 223 ALR 123](#).

[72] As stated by the Court: [\[2009\] FCAFC 116](#); [\(2009\) 179 FCR 346](#), [77], these were:

- a) a duty to deal with the property of UWA so as to protect and preserve that property;
- b) a duty not to make any secret profit;
- c) a duty to account for any secret profit; and
- d) the duties of a trustee of such of UWA's assets or property as were in his possession or control.

[73] [\(2008\) 248 ALR 603](#), [150]-[156].

[74] Ibid, [154].

[75] Ibid, [157].

[76] Ibid.

[77] Monotti and Ricketson, *Universities and Intellectual Property* (2003).

[78] [\(2008\) 248 ALR 603](#), [159], quoting from Monotti and Ricketson, *ibid*, [6.66].

[79] [\(2008\) 248 ALR 603](#), [159].

[80] Ibid, [160].

[81] Ibid, [164]. This was reinforced by the different views taken by the Pro Vice Chancellors of Research about the universities role in relation to inventions [\(2008\) 248 ALR 603](#), [162].

[\[82\]](#) [\[2009\] FCAFC 116](#); [\(2009\) 179 FCR 346](#); [259 ALR 224](#); [82 IPR 116](#).

[\[83\]](#) [\[2009\] FCAFC 116](#); [\(2009\) 179 FCR 346](#), [185].

[\[84\]](#) *Ibid*, [184].

[\[85\]](#) *Ibid*, [186].

[\[86\]](#) *Ibid*, [198].

[\[87\]](#) *Ibid*, [211].

[\[88\]](#) *Ibid*, [213]–[216].

[\[89\]](#) *Ibid*, [210].

[\[90\]](#) *Ibid*, [151].

[\[91\]](#) [\[2004\] VSC 33](#); [\(2004\) 60 IPR 392](#).

[\[92\]](#) [\[2009\] FCAFC 116](#); [\(2009\) 179 FCR 346](#).

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