

# PROTECTING THE ONGOING DESIGN PROCESS IN INDIA - IMPLICATIONS AND CONTRACTUAL LIABILITIES OF TRADE SECRETS IN OUTSOURCING CONSTRUCTION WORK

Ar. Shweta Naik<sup>(1)</sup>, Adv. Pradeep Dabhade<sup>(2)</sup>, Ar. Anagha Pathak<sup>(3)</sup>

*1-Student S.Y.M.Arch Dr. D. Y. Patil College of Architecture Akurdi, Pune*

*2- Practicing Advocate, 3- Professor Dr. D. Y. Patil college of Architecture Akurdi, Pune*

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## ABSTRACT -

Companies in India are looking at extensive outsourcing for the wide range of advantages it offers, like cut infrastructure costs, focus on core competencies, and/or obtain access to new, enhanced technologies. Outsourcing engagements require customers to share a high level of intellectual property, including know-how, which risks theft or misappropriation of trade secrets, loss of IP rights, and reduced control of the outsourced function. Construction being a core design related field, it is established that development of new designs and related technologies is an integral part. Design is an ever evolving process and every design is unique. Hence, every project develops its own package, which is developed by the participants at different levels and phases of the project. Also, it is developed with available resources, but it produces a unique solution. Indian legislature must take steps and consider these design developments and the risks involved with it as part of a legal system.

**KEYWORDS** - Outsourcing, intellectual property, trade secrets, new designs and related technologies, Indian legislature, legal system.

## 1. INTRODUCTION -

During the project lifecycle of a particular project, there are many processes involved that are interdependent and interconnected. From the office to the site, there are many arenas involved. In such a case, outsourcing becomes a necessity, and not merely a trend. Outsourcing may be evident in construction industry owing to

- Absence of professionals
- Absence of tools in house
- Lack the budget and interest in hiring a full-time employee to manage certain workflows like accounting, takeoff, compliance, etc.
- Labour costs being lower in countries like India and China
- Outsourcing also has many legal implications. The most important sphere of knowledge when deciding whether to outsource is the legal documentation and other aspects related to laws and regulations of the country.
- Every country has different legal and regulatory requirements. Certain industries are regulated by federal and state laws, while some are dependent on mandates according to the unique function
- In India, there is no law to specify and regulate outsourcing. However, the following laws are applicable in case of outsourcing

During the design and development phase of the project, it is critical to consider the legal and contractual implications involved. It is also important to note and understand that every country has its own legal and regulatory requirements. Particularly in case of outsourcing, there are no generalized laws that govern outsourcing, only legal specifications and mandates according to the unique function. Few mentioned below are applicable in the present scenario

### 1.1. National Regulations

Indian law regulates the transactions with the following laws

- Indian Contract Act 1872 (ICA)
- Indian Stamp Act 1899
- Specific Relief Act 1963 (SRA).
- Code of Civil Procedure 1909
- Arbitration and Conciliation Act 1996
- Foreign Exchange Management Act 1999 (FEMA)
- Information Technology Act 2000 (ITA).
- Intellectual property laws - The intellectual property-related provisions in outsourcing contracts are governed by the Copyright Act 1957 (Copyright Act), Trade Marks Act 1999 (Trade Marks Act), Indian Patents Act, 1970 (Patents Act) and Designs Act 2000 (Designs Act). India does not have a law on trade secrets.

### 1.2. Process of Outsourcing in the Construction Industry

To exploit and maintain a competitive advantage requires discipline, efficiency, adaptability, and a singularity of purpose. Global competition has forced managements to re-define, refine, and focus intensely on their companies' core competencies. This emphasis on core competencies has led to increased interest in contracting non-core support functions to outside organizations - a process known as outsourcing (Crino and Drnevich, 1999: 2)

Mariotti, (1999: 1) defined outsourcing as a strategic decision to obtain goods or services from independent organizations outside of a company's legal boundaries; to purchase goods or services instead of making or performing them. Construction companies have always subcontracted to gain access to resources beyond their individual reach - whether it is skills, people, technology, products or materials.

Quinn, (1999: 1) made this extreme remark: "If you are not best-in-world in doing something, and are doing it in-house, you are giving up a competitive edge. You could outsource to the best in the world, up the value and lower the cost". When companies downsize by intelligent outsourcing, they eliminate their inefficient activities and those employees not adding value to the company.

Legal structures commonly used in outsourcing are

1. Direct outsourcing
2. Multi sourcing
3. Indirect outsourcing
4. Joint venture or partnership
5. Captive entity
6. Build Operate Transfer

### 1.3. Legal implications of Outsourcing

Construction companies rushing into outsourcing without carefully considering their objectives may find themselves entangled in a contractual battle with the chosen outsourcing partner or in a worse position than before.

The relationship between the construction project management company and the outsourcing partner should be based on mutual trust. The foundation of an effective strategic partnership is a well-designed contract. The contract should be flexible to ensure that market innovation evolves into tangible benefits for both parties.

A company should always be wary of sharing too much information pertinent to its core competencies with its outsourcing partners. Partners contribute to a process of mutual disclosure and consensual agreements, and continue to evolve a working relationship based on common goals.

#### **1.4. Intellectual Property Rights**

Intellectual Property includes copyrights, trademarks, patents and now, increasingly gaining popularity, trade secrets. However, there is legislation in place for everything except trade secrets. Patents ride on the fact that the invention is novel, unique and non-obvious while being useful as well. Copyrights protect manner of expression but not content or idea but once the idea is materialized in a form, it is protected. Disclosure of trade secrets will harm the owner of the trade secret and kill the idea and essence of the trade secret thus making it difficult to gain protection the way patents and trademark/ copyrights enjoy protection. If trade secrets are exposed to the public, they can never be evoked.

Copyright Act, 1957 - Copyright refers to the legal right of the owner of IP. In simpler terms, copyright is the right to copy. This means that the original creators of products and anyone they give authorization to are the only ones with the exclusive right to reproduce the work.

Trademarks Act, 1999 - A mark capable of being represented graphically and which is capable of distinguishing the goods or services of one person from those of others

Patents Act, 1970 - An exclusive privilege given to the author by the State to prohibit anyone from utilizing, creating, and selling an invention for a specified duration of time

#### **1.5. Need of the study**

India does not have a specified codified legislation to protect trade secrets. Trade secrets are considered within the framework of contract, competition and IP. Trade secrets can be protected by way of covenants, non-disclosure agreements, other contractual means, action against misappropriation under common law, breach of confidence, and/or theft.

In the construction industry, where technological advancements are fast paced, the absence of legislation for trade secrets can give rise to mismanagement, failure of small businesses, and finally a disrupted economical fabric. In the era of globalization, many construction companies are off shoring work for various reasons, including expansion and cheap labor. In this case, the need for a stronger legislation is evident and of foremost consideration.

As defined in the Black's Law Dictionary, "trade secret" is a "formula, process, device, or other business information that is kept confidential to maintain an advantage over competitors; information including a formula, pattern, compilation, program, device, method, technique or process:

(1) That derives independent economic value, actual or potential, from not being generally known or readily ascertainable by others who can obtain economic value from its disclosure or use, and;

(2) That is the subject of reasonable efforts, under the circumstances, to maintain its secrecy."

#### **1.6. Problem statement -**

The entire construction process is based on a unique design that has been developed as a customized solution. This design process is executed in steps where every step has certain developments in terms of material or technology. When a part of this process is outsourced, the developments are shared on a common database and are exposed to parties outside the core competencies. However, as the construction process is based on a design developed as an art, this sharing of information, and

the design development thereof, need to be kept a secret. Since no two designs will ever be the same, replication of these secrets is not necessary as in case of patents or copyrights. And hence, these developments, during the process of construction, which if replicated, may cause the company to lose its competitive edge, should be considered as trade secrets and rightfully protected.

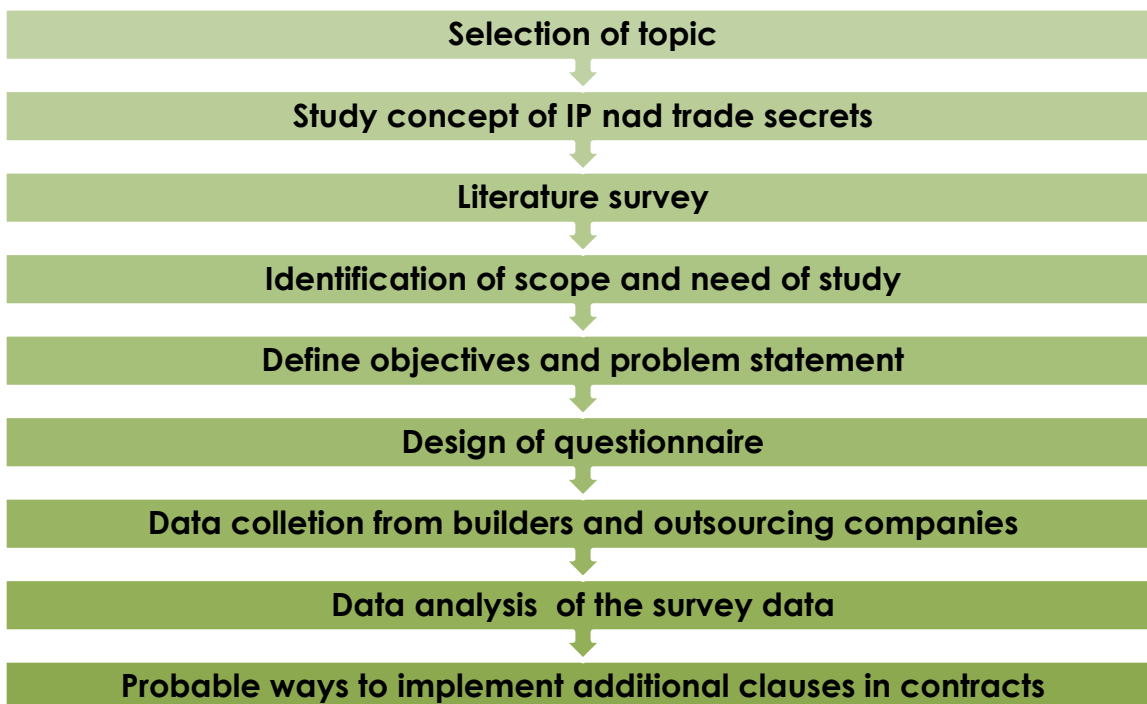
The research questions identified were as follows:

- How does the absence of Indian legislation of protection of trade secret impact offshoring
- How to define trade secrets in the construction industry, and signify its importance during offshoring process

The objectives of this research paper were identified as follows

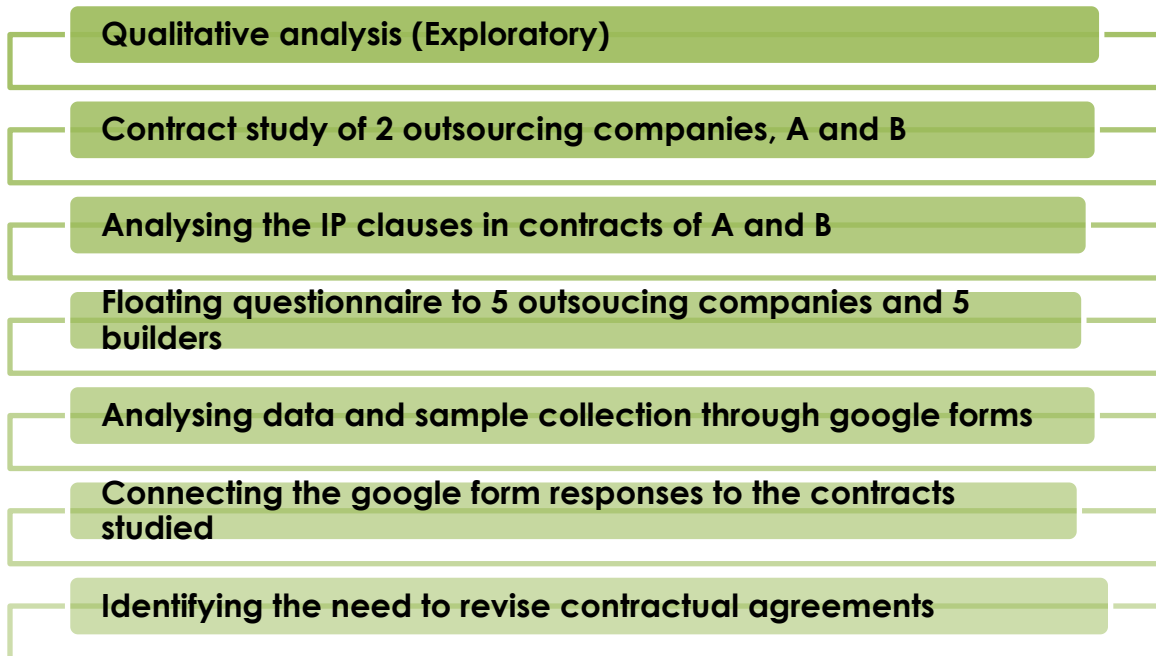
- Define trade secrets as an essential part of the designing and execution process
- Identify the elements missing in the existing legislation of the misuse of trade secrets
- Understand the necessity of evolving a legislation on trade secret in the process of offshoring

### 1.7. Flow chart of work



## 2. METHOD

The objective of this research is to understand the concept of trade secrets. In a design oriented field, and the inevitable technological advancement, especially in communication and exchange of information, it is mandatory to define a company's edge over others. In a design field, not just the design, but even the technology used, the material combinations and specifications, and the costing will be responsible for a company losing its competitive edge over other companies to a large extent. This research is aimed at defining trade secrets as an ongoing design and development process and protecting it under law. Also, considering the rate at which outsourcing has been adopted in the construction sector, understanding the implications of outsourcing on the parameters whose secrecy needs to be maintained is an essential part of this research.



### 2.1. Participants in the Survey

Company A is located in Aurangabad. It has been established in 2004 and works on BIM models for projects based in United States of America. Company B is based in Pune and works on projects based in Australia and United States of America. However, company B has also outsourced administration and execution services to contractors outside the company but within India.

The different models of working of the above two companies facilitated the study and survey of this research paper.

### 2.2. Factor analysis

The study of contract of company A and company B was qualitative. It was followed by open ended questions

The questionnaire contained closed ended format

- Importance Questions
- Dichotomous Questions
- Rating Scale Questions
- Other type of questions
- Hypothetical questions

### 2.3. Sampling procedure

The questionnaire was shared with 5 companies located in India, and builders involved with large scale projects. Since architects played a major role in the survey, it was recommended that the questionnaire be filled by Architects. Architects are involved with the design development phase of a project and hence, trade secrets and other intellectual properties are closely related to them.

The questionnaires were based on the fact that businesses in the 21<sup>st</sup> century have nontraditional challenges and are in the middle of extreme technological advancement. Trade secrets and outsourcing, both are comparatively new developments in the construction sector. Hence, the open ended questions for Company A and Company B were basic questions about understanding the intricacies of the existing legal system in India. The questionnaires focused on approval of new practices in the construction sector and the challenges associated with them.

### 3. RESULTS AND ANALYSIS

#### 3.1. Contract analysis out Company A and Company B

From the discussions with proprietors and consultants from Company A and Company B, it is observed that outsourcing models in India are typical and since projects are located outside the Indian legislature, IP rights is not a point of concern. However, in case of project delays, and disputes at site have an uneasy effect on service providers in India. The outsourcing of any services, where employees of a third-party supplier are deployed to provide services to a customer in its premises (or premises under the customer's supervision and control), is regulated under the Contract Labour (Regulations and Abolition) Act 1970 (CLRA) which may also give rise to theft of intellectual property.

#### 3.2. Questionnaire – Following major points were included such as:

1. Has outsourcing been a beneficial model?
2. Does outsourcing and offshoring a viable option in India?
3. Reason for increase in outsourcing in construction industry (cheap labour, competitive attitude, automation, global presence)
4. Which of the following acts are/should be part of an outsourcing contract (Copyrights Act, IP rights, Labour Acts, Information technology Act)
5. What are the pertinent risks involved with the design process in the construction industry (completion of the project, intellectual property, practicality, staff)
6. Which of these models will you prefer to use during outsourcing in the construction industry? (captive entity, bot, partnership, joint venture)
  - a. Are you aware of the term trade secrets?
  - b. Do you think trade secrets can be a part of the construction industry
9. If you have outsourced work, do you think your designs may be copied?
10. Do you include any clause in your contract to protect your design?
11. Do you feel the need to secrecy during the design development stage?
12. Do you feel the need to secrecy during the design construction stage?
13. Have you ever come across elements of your design in other designers projects?
14. Do you feel the need to define this secrecy in the form of any IP right?
15. Can you copyright your design?
16. Can you patent your design?
17. Do you think a customized design may be a part of IP?
18. Is there a risk factor of leakage of trade secret involved when outsourcing
19. Do any governing bodies have the authority to take action for theft of intellectual property?
20. Does Indian legislature help you with theft of your designs?

#### 3.3 Findings

- It is observed from the questionnaire that trade secrets are not a term known widely amongst the construction industry participants.
- Intellectual property is known only in terms of copyrights and patents, both of which are not a viable option for designers
- Outsourcing models do have the anticipated risks but are still adopted for its advantages and the financial stability and economics

- There is a need to protect the design process, throughout the life cycle of the project
- The absence of Legislature is a major setback

#### **4. CONCLUSION**

There is a need to educate people about trade secrets and the contents that fall under the category. It is also a mandate to protect the design process. If these two needs can be combined, we may be able to prove that the ongoing design process is a trade secret and it needs protection under law, especially when outside players are involved, as in case of outsourcing models.

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