Overview

“Crowdsourcing” is the act of taking a job traditionally performed by a designated agent (usually an employee) and outsourcing it to an undefined, generally large group of people in the form of an open call.” In the highly-connected contemporary world, crowdsourcing is becoming an ever-increasing reality for major companies. But, as often is the case with cutting-edge innovation, the crowdsourcing environment presents challenging legal issues. When you face issues pertaining to crowdsourcing, whether raised by internal marketing or R&D people, what do you tell your clients?

Also referred to as “open innovation” or as a subset of “user-generated content,” crowdsourcing can be divided into four general categories:

- Crowd voting,
- Crowd creation,
- Crowd wisdom, and
- Crowd funding.

If you ever chose a product or restaurant based on user-submitted ratings at Amazon.com or Yelp.com, you have experienced crowd voting – essentially a method of aggregating public sentiment to create overall ratings for products or services. With crowd creation, the consuming public is asked to create something. For example, snack-food-maker Doritos has turned to the public, with great success, for its well-known user-submission-based “Crash the Super Bowl” television commercial advertising campaign, allowing users to create television commercials for exposure and a cash prize. Crowd wisdom involves capitalizing on the diverse knowledge of a group to solve a problem. In a fascinating example of crowd wisdom, last year, over the course of just three weeks, online video gamers created an accurate three-dimensional map of a monomeric protease enzyme, solving a puzzle that had stumped AIDS research scientists for more than a decade. Lastly, crowd funding provides financing to individuals or groups. Kickstarter and Indiegogo are two established crowd funding websites, offering their separate respective platforms to individuals and organizations seeking funding for a variety of artistic, musical, charitable, and commercial projects.

From an intellectual property perspective, tapping into the intelligence of a crowd potentially can provide a vast, yet inexpensive, resource and mechanism for acquiring new ideas, solutions, or content. And crowdsourcing likewise can result in the consuming public becoming more invested in a product, service, or activity and its ultimate success. But crowdsourcing also presents risks, of which your client should be aware. And, despite the risks, companies have
implemented very successful crowdsourcing campaigns, experienced monetary savings, and enabled their companies to connect with the consuming public in ways they never could before. For example, the above-referenced Doritos “Crash the Super Bowl” campaign is one of the most successful crowdsourcing projects in recent memory. So, how can you deal with the risks, and make better-informed choices about whether and how to implement crowdsourcing in your organization? First, consider the general risks and benefits for any given project, as illustrated below:

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
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<td>Potential positive publicity (e.g., Doritos)</td>
<td>Publicity is not always a positive thing (e.g., Netflix Prize)</td>
</tr>
<tr>
<td>Create a connection with consumers</td>
<td>Public not always trustworthy, generally cannot indemnify</td>
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<tr>
<td>Give something back to consumers</td>
<td>Consumers may think you could give more, liability risk may outweigh potential benefit</td>
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<tr>
<td>Inexpensive method of acquiring new ideas/content</td>
<td>No verification submissions are non-infringing, costs/burden associated with clearing infringement risk may be too high</td>
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<tr>
<td>Vast resource for new ideas/content</td>
<td>Potential increase in: (a) contractual obligations, (b) insurance coverage issues, and (c) liability and damages exposure</td>
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Assuming the pros of utilizing crowdsourcing outweigh the cons, one of the most important steps to take is the creation of written terms governing the relationship between the parties involved in the project. This QuickCounsel provides an overview on how to address intellectual property risks associated with such projects through such terms, while noting some other potential pitfalls to be avoided.

Benefits and Risks of Crowdsourcing from an Intellectual Property Perspective

Whenever companies source work product protected by intellectual property law, the level of risk associated with exploiting the work product falls along a continuum based on the source of the work product. Whether dealing with copyright, patent, or trademark law, this risk continuum generally applies throughout intellectual property law, because the burdens of clearing potential infringement and obtaining rights in the work product generally are similar.

For example, take a project that sources a design for a logo. Because of the ability of the company to control the internal design process, an internally-sourced design (one created by an employee of the company) generally falls on the low risk end of the continuum, while a crowdsourced design falls in the high risk zone. A design sourced from a reputable creative agency occupies the middle area. The risk continuum is thus:

Internally Sourced Designs

Internally sourced designs occupy the lowest risk area of the design source continuum and theoretically have the lowest clearance risk of the three categories discussed, due to the element of control a company has over its employees. Additionally, the issue of copyright ownership is substantially less complicated where the employee works within the scope of employment, because works created by employees within the scope of employment qualify as works made for hire under the Copyright Act. With a work made for hire, neither assignment nor termination of transfer issues exist because copyright vests in the employer. In this situation, indemnification and insurance are not additional concerns because the company is merely conducting business in the normal course. But while internal sourcing may offer the
lowest risk, practically speaking, companies often look to external sources for increased expertise and potential rewards.

**Crowdsourcing Designs**

Of all sources for designs, crowdsourced designs involve the highest risk of infringement because of the large number and anonymous nature of contributors and the consequent difficulties associated with clearance. Even if warranties or indemnification concerning the non-infringing origins of the work can be obtained, they may be worthless. Importantly, a company must obtain complete written assignment of rights. Further, companies using crowdsourcing need to address the use of the designer’s name and likeness.

If your company is concerned with owning the result of the crowdsourcing project, as it often would be, crowdsourced designs protected by copyright involve additional challenges because crowdsourced works might not qualify as works made for hire. Because contributors likely are not considered employees under U.S. copyright law, the only way a crowdsourced work can be eligible for work for hire status is if the work falls within one of the statutorily enumerated categories and the parties expressly agree the work is for hire. If a work is not considered a work made for hire, termination of transfer issues can crop up, allowing the original creator of the work to reclaim ownership of the work after a statutory period of time, despite having assigned the work to your company.

Adding another wrinkle, crowdsourced contributor contracts may be in the form of electronic click-through agreements because much of crowdsourcing happens over the Internet. While courts generally uphold these agreements, courts have yet to address the validity of such contracts within the context of crowdsourcing. See e.g. ESL Worldwide.com, Inc. v. Interland, Inc., 06-CV-2503 (S.D.N.Y. June 21, 2006) (upholding clickthrough agreement including forum selection clause); Person v. Google Inc., 456 F.Supp.2d 488 (S.D.N.Y. 2006) (upholding the venue selection clause in Google’s mandatory clickthrough AdWords contract). Also, with crowdsourced projects, insurance may not cover liability or the full extent of potential damages for an infringement claim.

**Agency-Sourced Designs**

Agency-sourced designs fall within the medium risk zone of the design source continuum. An agency may take on some burden of clearing the work at issue, and may also have expertise in rights clearance. Likewise, warranties or indemnification may be of some value if you are dealing with a reputable, established agency. As with any independent contractor arrangement, the hiring party must obtain a complete written assignment of the rights. For agreements concerning copyrighted material, including both an assignment and a work-for-hire provision is a good idea, because the latter may avoid copyright termination issues if you can establish that the work falls within one of the statutorily enumerated categories. As with crowdsourced design, insurance may not cover liability or the extent of damages.

Avoiding Other Pitfalls: Privacy/Publicity Rights and Implied Contract Claims

**Privacy/Publicity Concerns**

Uses of consumer data in crowdsourcing projects can raise issues pertaining to the consumer’s right of privacy under state law. If, for example, consumers are surprised to learn that their personally identifiable data has been used or shared. Similarly, issues can arise when a company’s online privacy policy and terms applicable to a crowdsourcing project do not conspicuously and expressly address the uses to be made of consumer data or obtain necessary consent from consumers. In addition, some states recognize a right of publicity (the entertainment-industry-focused states of New York, California, and Tennessee, among others) that grants an individual a right to monetize his or her name and likeness, and this right can create similar issues if a company crowdsources, for example, uncleared images or recordings of individuals. And of course, any crowdsourced competition likely abuts regulations pertaining to sweepstakes or gaming, another area of the law that must be considered by the organizer of such projects.

**Implied Contract Claims**
While the case law dealing with idea-submission issues has not yet dealt with a true crowdsourcing situation to our knowledge, we note some states, including New York and California, recognize implied contract claims in some situations involving the submission of ideas. The bottom line is that case law in New York and California demonstrates that, to avoid potential implied contract claims under state law, any agreement governing a relationship with an idea submitter—including, conceivably, within the context of crowdsourcing—should be governed by a written agreement. And, where the company does not intend to (i) pay for submissions or (ii) keep submissions confidential, the company should state these terms expressly.

Minimizing Crowdsourcing Risks

The following are guidelines for counsel approaching crowdsourcing projects:

* Be aware of issues surrounding ownership of the intellectual property in any materials submitted through a crowdsourcing project.
  - If you want your company to be the owner of the submitted work product, take care to have all intellectual property explicitly assigned to the company. Whether the project involves patents, copyrights, or trademarks, under these circumstances, a company should make sure to obtain a full grant of rights, including the right to sue for infringement. When dealing with copyrights, designate the work as made for hire whenever possible, but be aware that this designation is not necessarily controlling under the statute.
  - Alternatively, if ownership of crowdsourced work product is less of a concern, your company may consider taking a broad license from the submitter under some circumstances.

* Obtain releases to use a contributors’ name, image, likeness, and personally identifying information.

* Even though it may not ultimately hold significant weight in the event of an infringement action, require contributors to provide a warranty or representation of originality and non-infringement for their contributions. Similarly, require an indemnity covering infringement and misappropriation damages.

* Generally, make provisions clear that you do not accept confidential submissions, or those containing proprietary information belonging to a third party.

* Detail logistics for submissions and draft clear provisions on the matter of payment, prizes, and awards for submissions, or lack thereof.

* Also be sure to include appropriate provisions for the selected crowdsourcing method.
  - For example, sweepstakes law, employment law, and privacy law often apply to crowdsourced projects.

* Always determine whether third-party website terms of use apply to the company’s selected crowdsourcing method. Websites such as Facebook and Twitter have policies regarding how companies can use the sites to interact with contributors.
Crowdsourcing is here to stay. And while one cannot always wholly avoid the risks associated with crowdsourcing, informed lawyers can work to mitigate those risks by taking the foregoing steps in drafting terms and agreements governing crowdsourcing projects.

**Additional Resources**

- Crowdsourcing – Open Innovation Strategy *(Northwestern Ontario Innovation Centre 2012)*
- Who Owns the Wisdom of Crowds? *(i-cio.com 2011)*
- Crowdsourcing as IP-Strategy *(Intangitopia.com 2011)*

Published on August 28, 2012

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