

Warning – your business could be walking out the door

Employment agreements must have effectively worded confidentiality clauses

David Hood and Rob Batty

The global recession is expected to lead to increased job losses in the next year and businesses should be wary of departing employees walking out the door armed with intellectual property and into the welcoming arms of a competitor.

The term "intellectual property" (IP) captures a wide array of material and information, much of which is protected by specific legislation concerning patents, trade marks and copyright.

There is, however, a valuable component of a business' intellectual property that is not necessarily protected by legislation, but which is nevertheless integral and

essential to the success and wellbeing of an enterprise.

This IP can be referred to as confidential business information and it includes trade secrets, such as KFC's recipe of 11 herbs and spices and Coke's formula for Coca-Cola.

This information may also include marketing strategies, restructuring plans, new business opportunities and other information that provides a competitive edge in the marketplace.

Is business information protected?

Employees often owe an express contractual duty of confidence to their employer in relation to their employer's business information and this duty is typically worded to continue after their employment comes to an end.

In the absence of an express clause in the employment agreement, the courts may imply a duty of

confidence. However, that duty will not be implied in relation to all business information, because not all business information will be treated by the courts as inherently confidential.

For example, trade secrets (the formula for Coca-Cola) will always be confidential, but other information such as customer lists and pricing information may not.

The courts balance a number of factors to determine whether business information is confidential. These factors include the nature of the employee's employment, the nature of the information, whether the information is readily accessible or in the public domain, and whether confidence was impressed on the employee.

This balancing approach makes the question of whether certain business information is confidential and subject to an implied duty of confidence, uncertain and dependent on the facts of each case.

Steps to protect business information

To help avoid this uncertainty it is essential that businesses ensure their employment agreements contain effectively worded confidentiality provisions that protect their business information. Such provisions will include a clear and comprehensive description of the employer's confidential information.

But even an express clause in the employment agreement might be insufficient to give the employer real protection against the misuse of its valuable business information. That is because it may be difficult, if not impossible, to detect and prove that an ex-employee is using their employer's confidential information in breach their contractual obligations of confidentiality.

An enforceable restraint of trade will provide the employer with additional

comfort that during the restraint period, the ex-employee will not be using the employer's confidential information for the benefit of a competitor.

That is in itself valuable, but the true value of the restraint is likely to be in the time it gives the employer to adjust strategies and plans, to bring forward initiatives, and to take other steps to minimise the risk that an ex employee disclosing confidential information and trade secrets to a competitor

will be damaging to the employer's business.

There is a popular perception that restraints of trade are unlawful. That is incorrect. The courts will enforce a restraint of trade clause in an employment agreement if the restrictive covenant is reasonably necessary to protect the employer's proprietary interests (including trade secrets and confidential information).

The key is to maximise the chances of a court finding that the restraint of trade is

reasonable and enforceable. This includes:

- tailoring the restraint to match the interests the employer is seeking to protect – don't rely on standard restraint clauses;
- ensuring that the length of the restraint is not onerous, but is sufficient to provide the employer with adequate protection (three to six months is often considered reasonable for senior employees);
- ensuring that the geographical reach of the restraint reflects the geographical scope of the employee's duties and the area in which the business operates; and
- having the employee sign a separate acknowledgement that he or she had an acceptable opportunity to take independent advice specifically on the terms of that restraint.

While these and similar provisions in an employment agreement for key executives will not guarantee that a restraint will be enforced and the employer's business information will be protected, they certainly improve their chances.

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