Bird & Bird & Trade Secrets

The Opportunities and Challenges of Confidentiality Protection in Employment Contracts – a Cross-Border View

In an increasingly digitised world, information is the new currency. Information, intelligence and intellectual property generated in the course of an individual's employment belong to the employer and are invaluable. Such "crown jewels" should be protected and preserved to the highest degree possible. Employees who leave their employment to join a competitor or to start a competing business are in an ideal position to take advantage of their previous employer's confidential and proprietary information, which can have a monumental impact on the former employer's business.

Needless to say, over time, companies have sought to protect their business interests by having employees sign up to a spectrum of protective provisions contained within the employment contract or appended to it, such as a confidentiality and intellectual property agreement. These provisions protect the employer not only during the currency of the employment relationship, but, much more powerfully, beyond the end of the employment relationship. Most notably, these are the post-termination restrictive covenants, such as the non-compete, non-solicitation and non-dealing provisions.

This article examines some of the trends we are observing and the state of the law in several jurisdictions in this struggle to find the right balance between employer and employee interests.

Compensated Restrictive Covenants?

While post-termination restrictive covenants are seen to be the first line of defence in protecting employer's confidential information from falling into the hands of competitors, they are still generally seen as a challenge to public policy across the globe. There is clearly a public interest in allowing employees the freedom to earn a living and to choose their place of work. Often pitted against this are the interests of organisations to protect their intellectual knowhow, their proprietary information and the workforces they have trained and invested in.

In Finland, new rules restricting the use of non-competition agreements are currently undergoing parliamentary debate. The proposed legislation would impose an obligation on employers to pay compensation to an employee for all non-competition restrictions. It is anticipated that this would require compensation of between 40 and 60 per cent of the employee's salary to be paid out, depending on the duration of the non-competition period. This does not, however, remove the present requirement to justify the imposition of the non-compete provision. Of course, the most important of these is the protection of trade secrets.

If the new non-competition law is passed, Finland will join a number of other civil law jurisdictions with similar constraints, the People's Republic of China being one of them. In China, where there is no written agreement between the employer and employee as to the amount of compensation payable, the employer is required to pay 30% of the employee's average monthly salary over the 12 months prior to termination or the local minimum wage, whichever is higher. The local minimum

wage varies between cities. This is the staple protection for organisations in China wishing to impose post-termination restrictions on their former employees. Conversely, although non-solicitation restraints are theoretically enforceable in China, in practice, the law on solicitation is uncodified and therefore is viewed as under-developed. As a result, such restraints are rarely used.

By contrast, in common law jurisdictions such as the UK, Hong Kong and Singapore (where there are no requirements to compensate former employees to adhere to a non-compete), the courts mandate that restrictions be tightly drafted and restraint periods be kept as short as possible to justify enforceability. In these jurisdictions, post-termination restrictions are prima facie unenforceable as being a "restraint of trade", effectively preventing individuals from taking up employment of their own choosing. Employers must therefore be able to demonstrate that such restraints are necessary to protect the legitimate interests of their business (for example, their confidential information, trade connections and the stability of their workforces). Such restraints must go no wider than is reasonably necessary to protect that information. Careful drafting of restrictions is therefore vital to their enforceability.

For example, the reasonableness of a non-compete restriction was the recent subject of scrutiny by the UK Supreme Court in the case of *Tillman v. Egon Zehnder* [2019] UKSC 32, the first employment restrictive covenants case to reach the highest UK court in 100 years. The case concerned a covenant preventing an employee from "being concerned" or "interested in" a competing business following termination of employment. The Supreme Court held that, subject to severance of the clause, the restraint was too wide in scope to be enforceable because the phrase "interested in" generally includes holding shares and would unreasonably prevent the individual from holding even a minor (passive) shareholding in another company (even though, on the evidence, the employee had no intention of doing so). Given that Hong Kong and Singapore law are founded on English common law, this Supreme Court decision will have persuasive authority in Hong Kong and Singapore as well.

Increasing Reliance on Confidentiality Protections

Coupled with the imposition of post-termination restraints is the need for robust non-disclosure and confidentiality protections and measures that span the employment cycle, from "pre-hiring to firing".

Confidentiality protection during pre-hiring

In the search for the perfect candidate for key employment relationships, potential employers may feel the need to reveal business-sensitive, personal, proprietary and potentially non-public information to candidates to entice them to accept an offer. What is often forgotten in this process is the execution of a well-crafted non-disclosure agreement (or "**NDA**") preventing candidates from walking away with the organisation's business strategies, plans and other data in the event that they decide to join a competitor instead. This is often not done systematically, but should be addressed as soon as an interview with the candidate is accepted, and signed, whether or not the candidate ends up accepting the job.

In common law jurisdictions such as the UK, Hong Kong and Singapore, upon joining a new employer, senior employees will often be expected to warrant in their new employment contract that they are not in breach of any express or implied terms of any contract or other obligation binding on them from previous employment. This aims to protect the new employer against an allegation by the former employer that they have induced any breach of contract by the new employee.

On the other hand, senior-level contracts of employment in the UK also typically include a provision that the employee should, on departure, provide a copy of their post-termination restrictions and confidentiality obligations to their future employer. This aims to protect the organisation by ensuring that the future employer is fully aware of the contractual restrictions owed by the departing employee and acts as a further deterrent against breach or competitive behaviour.

In China, while there is no tortious concept of inducing a breach of contract or wrongful interference with contractual relations, litigation may be commenced against the former employee for breach of contract and the employer joined in the action as a contributing party. The likelihood of such litigation occurring in China is relatively high.

To mitigate this risk, employers often make it clear in their employment contracts that the employee comes with "clean hands" and will not disclose confidential information in the course of employment with the new employer.

Confidentiality protection during employment

In common law jurisdictions, employees are subject to duties under their terms of employment with regard to confidential information, even in the absence of any express clause or agreement. Implied contractual duties exist to prevent employees from disclosing or misusing information that is clearly confidential. However, what is confidential is not always clear. It is therefore common, and good practice, to include clearly drafted confidentiality provisions in the employment contract or a separate NDA.

What is clear, however, is that information amounting to trade secrets is protected, not only during, but also before and after employment, regardless of whether they are specifically covered under a written confidentiality agreement or NDA.

In the UK, Hong Kong and Singapore, trade secrets law is not codified. Trade secrets are automatically protected under the common law of confidential information, provided that they can be shown to fall within the definition of a trade secret. This means they must be unique to the business, have commercial value, must not be common knowledge outside the business, and must have security measures given to them that make it clear that they are secret.

In Finland, it is stipulated in three different Acts that employees are prohibited to use and disclose their employer's trade secrets during employment. The use or disclosure of such trade secrets is also punishable under the Criminal Code. In the new Trade Secrets Act, this non-disclosure obligation extends to technical instructions with a lower level of secrecy than trade secrets. Even though there already exists under Finnish law an automatic confidentiality obligation with regard to trade secrets and technical instructions, it is common to include a confidentiality clause that widens the protection to cover also other types of confidential information that may arise during the employment. Having a distinct confidentiality clause in the employment contract also allows an employer to prolong the statutory confidentiality protection that continues for two years after the termination of employment.

China has a wide definition of "trade secrets". Taking the definition under the (civil) Anti-Unfair Competition Law (as opposed to the Criminal Code), it includes commercial information such as technical or business information that is not known to the public. Such information must further bring commercial value to the rightful owner and is the subject of confidentiality measures taken by the trade secret holder. As such, the key to effective trade secret protection is to invoke the statutory protections via the adoption of confidentiality measures (such as appropriate IT security measures). Having an NDA in place will further enhance the confidentiality measures taken for the purposes of the statutory protection. (Our article comparing the EU Trade Secrets Directive and the Chinese trade secrets protection regime can be found here.)

Confidentiality obligations post-exit: striking a balance

The biggest threat to an employer's business interests is when an employee exits the organisation, taking with them confidential information and trade secrets that could potentially benefit a competitor.

In most common law jurisdictions (and as noted above), while an employee has a duty not to disclose certain confidential information while employed, once the employment ends, the law will only grant protection for confidential information which amounts to a trade secret of the employer or in respect of which specific contractual protections have been agreed. Trade secret protections are likewise codified under the laws of many civil law jurisdictions, as we have seen.

In light of the above, employers should seek to include express confidentiality provisions within the employment contract to protect from disclosure information that does not have the characteristic of a trade secret and which survive the termination of employment. In the UK, Hong Kong, Singapore, China and Finland, this protection can be agreed to be for an indefinite period.

In the absence of such express terms in the employment contract, there is a further opportunity to secure a specific NDA within any settlement or separation terms upon an employee's exit. This can be a helpful means of remedying inadequate protections in the employment terms, provided that valuable consideration is provided to compensate the employee for agreeing to more onerous post-termination terms and conditions.

It should be noted, however, that this practice of paying for NDAs has become the subject of recent heavy criticism in cases where the employee's departure has followed a complaint of sexual harassment. NDAs which prevent employees from disclosing "internal" confidential matters can have the effect of placing a gag on them and prevent them from speaking out. The #MeToo movement has highlighted how NDAs can be, and have been, misused to silence the victims of sexual harassment.

As a result of the discussion sparked by the #MeToo movement about the perceived abuse of employment-related settlement agreements in silencing victims of workplace sexual harassment, legislation has been proposed by the UK Government to restrict the scope of NDAs in these circumstances. For example, it is proposed that NDAs will not be permitted to prevent an individual from making a disclosure to certain persons including the police, relevant regulatory authorities or legal professionals. Most employers who use NDAs have already incorporated such terminology in their drafting in order to avoid any accusation that they would seek to unlawfully silence employees in these highly sensitive situations. It should also be noted that the EU Trade Secret Directive and the Whistleblowing Directive heavily encourages all whistleblowing activity and may limit the possibility of entering into such NDAs.

Tips for protecting employer confidential information

We have set out below some universal pointers to take into account when putting in place confidentiality protections.

- In the pre-hire stage, consider asking job candidates to sign an NDA if it is anticipated that confidential information will be shared with them.

- In drafting confidentiality provisions and NDAs, the scope of the clauses, in particular what constitutes "confidential information", should be clear in encompassing what the organisation is seeking to protect.

- In order to increase the prospect of enforcement, post-termination restrictive covenants should be tailored to the individual employee and the circumstances and should not be overly broad.

- NDAs should strike a balance between business protection and the employee's right to disclose information when appropriate and fair to do so.

- Re-assess the need for employees to access confidential information by considering the purpose, necessity and extent of disclosure, and implement a "need to know" policy to limit the usage and dissemination of confidential information.

- Appropriate security measures are also essential to keep both physical and electronic copies of trade secrets and confidential information secure.

- Put in place protocols to vet employee accesses to confidential information in the period prior to notice being given, and to limit access following notice being given, in order to verify and secure information that has been shared with the employee prior to termination.

Want to learn more?

Our international Trade Secrets Protection Group comprises over 80 lawyers, with extensive cross-jurisdictional experience in all of aspects of trade secrets protection and exploitation. Unlike many of our competitors, we combine expertise in Employment, IP, Dispute Resolution and Commercial law in order to tailor our advice to meet the needs of each client assignment. If you would like to find out more, or need assistance with a trade secret issue, please get in touch.

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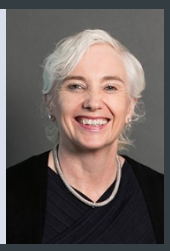

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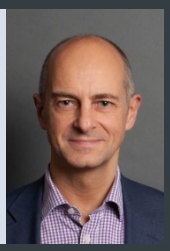

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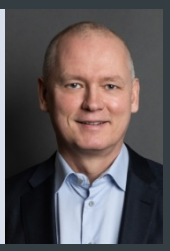

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