

Departing Employees: Ensuring Protection of Trade Secrets and Intellectual Property

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“Knowledge is power” goes the old adage. Well, that is certainly true in the world of business where secret processes, confidential designs, and even a good customer list can give a business a vital commercial edge over its rivals. Protecting the sanctity of that information on the departure of a key employee is vital.



“Knowledge is power” goes the old adage. Well, that is certainly true in the world of business where secret processes, confidential designs, and even a good customer list can give a business a vital commercial edge over its rivals. Protecting the sanctity of that information on the departure of a key employee is vital.

When it is a creative employee departing, there can be extra considerations related to protecting intellectual property (IP)—and mitigating the risk of the ex-employee exploiting the IP for his or her own use or a third party's advantage.

In this article, we will look at the risks that arise upon an employee's departure and the steps employers can take for greater protection.

The International Perspective

We will do so against the background of a global economy. After all, the ex-employee could have been working in one of your overseas subsidiaries—and even if he or she wasn't, the ex-employee could pop up as a competitor anywhere in the world. Such a circumstance could leave you at the mercy of another jurisdiction's laws—at least when it comes to enforcing a court order.

Laws differ, of course, across the major business nations, and even within them, with the United States and Canada being two good examples of countries where state or provincial law is at least as important as federal law—especially when it comes to restrictive covenants and trade secrets. We will look at express contractual provisions that can be sensible and how to maximize your chances of enforcing them globally.

First, let's take a look at the general legal situation in the absence of any express contractual provisions.

Protection Implied by Law During Employment

In most countries, it is generally implied that an employee will not behave in a way that is detrimental to his or her employer during the period of employment. This includes an obligation to keep secret any confidential information and not to compete with the employer. Seeking to divert work to a soon-to-be new employer would breach this implied duty. However, countries vary in their level of protection. For example, in the United Kingdom, whilst an employee may not start trading in competition, he or she can take “preparatory steps” to do so, such as incorporating a new competing business and finding business premises.

On the IP side, there are various forms of IP protection available to ensure companies benefit from the fruits of their labour—or should I say the fruits of their employees' labour. And therein lies the issue. Companies are not themselves creative—it is the people who work for them that invent new gadgets, write valuable software code, design the shape of products, and so on.

It is accepted in most countries that when a company employs someone to do these things, that in return for paying a wage, the company owns the creative IP which arises. Accordingly, inventions and creations arising “*during the course of employment*” belong to the employer. That phrase, or a very close variation of it, applies in most countries, and across most of the main types of IP—patent, copyright, design rights, database rights, and trademarks. Many disputes have arisen over its application to given facts.

Protection Implied by Law After the End of Employment

In most countries, the level of legal protection for an employer falls dramatically upon an employee's termination of employment.

Typically, the only protection that survives is a requirement to preserve secrecy in relation to “confidential information.” However, even then, it is often only the most sensitive trade secrets that are protected. Disputes can arise over what constitutes a trade secret of the sort an employer can own (as unique to the employer) versus mere general “know-how” which the employee picks up through doing the work.

Beyond that, there is generally no protection afforded by law against the actions of an ex-employee, the duty of loyalty having expired on termination. The ex-employee is therefore free to compete and go after the former employer's clients, suppliers, and employees as well as unprotected ideas and IP.

Contractual Protection

Fortunately, there is a lot that employers and their advisors can do to enhance protection through clauses in employment contracts or other business protection documents signed by the employee.

1. Confidential Information Clauses

Employers typically ensure they have express wording to bolster the basic legal position. This includes setting out what the employer considers to be confidential information and contractual provisions aimed at a higher level of protection post-termination. The wording will usually also require the employee to return or delete anything confidential that he or she possesses upon the termination of employment. It is also a good idea to ensure that confidential information provided to the employee during the employment is marked confidential. These provisions are fairly standard globally.

2. Restrictive Covenants

A key means of preventing leakage of confidential information and loss of customers is the use of restrictive covenants. Typically, these agreements are entered into upon the commencement of employment or upon promotion. Covenants include non-competes, non-solicits, and non-deal arrangements. Thought needs to be given to the jurisdiction in which the employee works, but that is not necessarily the end of the matter. If the employee leaves and breaches the covenants in another country, you may need to consider the laws of that country if you want courts there to enforce the judgment. Local courts will not always enforce a judgment if to do so would breach local law.

Practically, it is not possible to draft something that meets the requirements of every country. However, most countries require a standard of reasonableness and a balance of interests between protection for the

employer and the employee's need to earn a living. To improve the chances of obtaining protection in other countries, as well as the primary country in mind when drafting a restrictive covenant, it makes sense to keep in mind some basic rules and principles:

- a. Few countries will allow covenants lasting longer than 12 months.
- b. Drafting to restrict use of “know-how” learned on the job can render a confidentiality restriction unenforceable. Stick to what is necessary to protect the employer.
- c. Reserve non-compete provisions for key employees who have access to highly confidential information.
- d. Provide a right to garden leave and state that any such period will be set off against the duration of covenants.
- e. In some countries and jurisdictions (e.g., India and California), injunctions to enforce non-competes are not an option. However liquidated damages clauses can sometimes be used in their place, including in Spain, where they are common. It can therefore be a good idea to include liquidated damages clauses in your documentation as an option the employer can choose to invoke.
- f. Some countries (e.g., France and Germany), require the employer to make payments for the duration of the restricted period. A statement that the employer will pay such sums required to ensure the enforceability of the restriction (if the employer chooses to enforce it in such a country) may help, but is not a guarantee of success.

3. IP Provisions

In addition to including assignment wording stating that the employer will own IP, consider how to widen, as far as reasonably possible, the scope of what could be considered “*in the course of employment*.” (One way, for example, could be through careful job-description wording.) Typically, there will also be an obligation on the employee to disclose inventions and do or sign all that is required to enforce ownership provisions. Consider, too, post-employment (trailer) IP obligations which purport to catch inventions which arise for a fixed period post-termination. These prevent an employee's leaving to commercially exploit something he or she discovered at work (while claiming the invention only came to him or her post-termination). In some countries, these are subject to similar scrutiny and enforcement challenges as restrictive covenants, but they are worth considering all the same.

No matter how good a clause might be, there can be a risk of the employee's retaining some ownership over IP he or she created which is integral to the employer's product. Ensure, therefore, that you have a clause stating that in the event the employee retains any ownership, he or she grants the employer a licence to use and control the IP.

It can be problematic to roll together all IP into one “proprietary information” clause. Whilst this has the advantage of brevity, different laws apply to different types of IP, potentially rendering the wording defective. Another common mistake is to describe a patent as “confidential”—which can have an impact on the

employer's ability to enforce. The patent, is protectable as an employer asset, but is also published and not therefore "confidential."

Sometimes as a condition of joining a company, an employee will insist the employer "carve out" prior works of the employee as being outside of the employer's ownership. Similarly, a company may find itself having to agree to allow an employee to continue work on a private initiative in his or her own time during the period of employment. These situations are normally dealt with by way of a contractual schedule describing the works in question, with accurate drafting to ensure that the scope of disagreement over what is carved out is minimised.

Independent Contractors

Good drafting will be particularly important when dealing with non-employee contractors in order to ensure the "employer" gets the same level of protection and owns the IP created (if, indeed, that is the intention). This is because the implied laws described in this article are far less employer-favourable when it comes to non-employees.

Other Practical Points

An often overlooked trap for employers is failing to provide consideration in return for contractual restrictions. This is not generally a problem on commencement of employment when the offer of employment is usually deemed sufficient consideration, but it can be a problem when restrictions are added later. Good consideration can be a cash payment (although a nominal amount may be insufficient in some countries) or a promotion. Without it, protection can be lost.

It is also surprising how often employers fail to update their contractual documents during the evolving working relationship. This omission can render clauses that provided good protection when signed obsolete and worthless over time. Promotions and new assignments are key times to consider and refresh documentation, ensuring pay rises or other valuable consideration apply and are tied to the changes.

Many forms of IP require registration to be enforceable. The international options in this respect go beyond the scope of this article, and specialist advice from a lawyer with IP expertise should be obtained.

Where allowed, garden leave can be highly effective in providing protection, as the implied duty of loyalty usually continues to apply during the garden leave, significantly restricting the scope of the employee to compete. Often an express garden leave clause in an employment contract is required to allow the employer to activate this option. There is little to be lost by including such clauses in contracts and it is good practice to do so.

Actions on Termination

If there are suspicions upon an employee's departure, employers may want to assess the situation and risk to the business, looking for all available evidence. This includes email traffic, USB downloads, and phone records where local laws allow. When there is evidence of a serious breach, court action for damages or an injunction may be possible—but not always sensible. That is a commercial decision which involves the consideration of possible reputational consequences with customers and the weighing of potential benefits and costs (not just in money terms). Many countries require that an individual be sued in the courts of the country in which he or she resides, which can be an added hurdle if he or she has moved somewhere inconvenient. If court action is decided upon, employers should be prepared to go in hard and fast. Delay and indecisiveness can be fatal to a satisfactory outcome.

Ideally, departures are amicable. When severance agreements are involved, consider using the agreement to plug any gaps in protection with appropriate clauses (e.g., an obligation to cooperate and sign any assignment documentation). However, seeking new restrictive covenants at the time of departure is likely to lead to the employee's seeking a higher payment in return.

Conclusion

I started with an adage, and I will finish with one—namely, “*Prevention is better than cure.*” The best weapon of all against threats to a business is not to lose employees in the first place. Employers that work hardest on achieving employee loyalty will likely be rewarded with fewer departures and have less need for the advice in this article.

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TOPICS

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