CONFIDENTIALITY OBLIGATIONS OF EX-EMPLOYEES

Introduction

It is well established that the relationship between an employer and an employee is one that is fundamentally grounded upon the obligations of mutual trust, confidence, good faith and fidelity. These obligations dictate that an employment relationship does not simply grind to a halt following the termination of employment.

From the perspective of the employer, there is always the risk that an ex-employee may, amongst other things, enter into the employment of a competitor or set up a competing business and, in that event, unfairly exploit the ex-employer's proprietary information for his or his new employer's benefit.

In the absence of any express term, the obligations of good faith and fidelity which governs the employment relationship mitigates this risk by imposing on the employee an implied contractual obligation to keep in confidence the information of his employer during and after the term of employment. Having said that, there is a marked difference between the obligation of confidentiality which the law imports into the employment relationship during the currency of his employment and that which must be observed by the employee following the termination of his employment.

The obligation of confidentiality that is owed by an employee during the currency of the employment extends to all information imparted by the employer which the employee knows or ought reasonably to know to be confidential in nature. Once the term of the employment has ended, however, the employee's obligation of confidentiality is far less onerous. This is the net result of an attempt by the court to reconcile three legitimate but conflicting interests:-

- the expectation of the employer that the knowledge and the contacts which have been imparted to or acquired by his employee during the course of employment are not subsequently used by that employee to the employer's detriment following termination;
- the right of an ex-employee to use and exploit the skill, experience and knowledge acquired by him during the term of employment to make a living and to advance his chosen trade or profession; and
- the interest of the state in securing an environment in which freedom of trade and competition can flourish.

The scope and extent to which the common law will imply an obligation of confidentiality on an employee during and after the employment was summarised in the case of Faccenda Chicken Ltd v Fowler [1987] 1 Ch. 117 :

"…in the absence of express terms, an employee was bound by his implied duty of good faith to his employer not to use or disclose for the duration of his employment confidential information gained in the course of the employment, and was furthermore bound by an implied term of his contract of employment not to use or disclose, either during his employment or thereafter, information which was not merely confidential but which was properly to be described as a trade secret; but that no term was to be implied which imposed upon him an obligation binding upon him after him employment had ceased not to use or disclose confidential information short of a trade secret;..."

Similarly, in the local case of Medivac International Management Pte Ltd v Moore [1988] 1 MLJ 5, the court, having regard to Faccenda Chicken Ltd v Fowler, observed that:

"The duty of fidelity owed by an employee to a former employer was not as great as the duty implied in the employee's contract of employment and owed during the subsistence of the employment, when use or disclosure of confidential information, even though it did not amount to a trade secret, would be a breach of the duty of good faith. Accordingly, confidential information concerning an employer's business acquired by an employee in the course of his service could be used by the employee after his employment had ceased unless the information was classed as a trade secret or was so confidential that it required the same protection as a trade secret."

What then amounts to a trade secret or, for that matter, what type of information will possess the characteristics of a trade secret such as to attract the protection of the law?

It was observed in the local case of Tang Siew Choy & Ors v Certact Pte Ltd [1993] 3 SLR 44, that "(m)any have great difficulty in understanding the distinction between genuine trade secrets and knowledge which the employee may take away with him". This is perhaps an understandable state of affairs given that the decided cases do not, and cannot, provide a closed and precise list of information which may properly be classified as trade secrets or their equivalent. The courts must have regard to all the circumstances of the case and accordingly, it would appear prudent for employers to make every attempt to protect their confidential information which, in their view, amounts to a genuine trade secret, notwithstanding that the courts may ultimately take a different view.

Whilst it may not be possible to draw up a conclusive list of confidential information which the law will protect, the decided cases do provide some assistance in determining the type of information which are capable of protection. In the Malaysian case of Schmidt Scientific Sdn Bhd v Ong Han Suan [1997] 5 MLJ 632 for example, the court held as follows :

"trade secrets are not limited to manufacturing processes or secret formulae but extend to information relating to the list of names and addresses of the customers and suppliers, specific questions sent to the customers, costs, prices, specific needs and requirements of the customers and status of the ongoing negotiations with customers."

In addition, the decided cases also provide an understanding of some of the essential elements for determining whether the confidential information in question possess the characteristics of a trade secret. These elements should be considered by an ex-employer before he embarks on legal proceedings to enforce an ex-employee's implied obligation of confidentiality.

The nature of the employment

It has been held that employment in a capacity where confidential information is habitually handled may impose a high obligation of confidentiality because the employee can be expected to realise its sensitive nature to a greater extent than if he were employed in a capacity where such material reaches him only occasionally or incidentally (see E Worsley & Co Ltd v Cooper [1939] 1All ER 190).

The seniority of the ex-employee's position in the company and the nature of the duties which the ex-employee had been called upon to discharge can therefore provide vital clues which may assist the court in determining whether the ex-employee was in fact privy to the employer's confidential information.

The court will, ultimately, be more prepared to enforce an obligation of confidentiality against an ex-employee if:-

> the ex-employee was employed in a position of seniority and/or in a capacity in which the alleged confidential information would have been imparted to or acquired by him or her; and
> the alleged confidential information was imparted to the ex-employee for the sole purpose of allowing the ex-employee to properly discharge his duties.

The attitude of the employer

In a similar vein, the nature of the business which the ex-employer was involved in and the attitude of the ex-employer towards the alleged confidential information may also provide an understanding as to whether the alleged information amounts to a trade secret.

In the decided case of Thomas Marshall (Exports) v Guinle [1979] 3 All ER 193, the court suggested four elements which must be considered when identifying the type of information which will warrant the protection of the court:-

the information must be information the release of which the employer believes would be injurious to him or of advantage to his rivals or others;

the employer must believe that the information is confidential or secret (i.e. that it is not already in the public domain;

the employer must believe that the previous two heads must be reasonable;

the information must be judged in the light of the usage and practices of the particular industry or trade concerned.

The elements above, however, are by no means the only criteria upon which the court will assess information warranting protection. As may be observed in Tang Siew Choy's case, quite apart from the employer's own beliefs, the court may also seek to determine the ex-employer's actual attitude towards the alleged information:

(a) Was the information in question circulated to only a limited number of individuals?

(b) Did the ex-employer specifically impress upon or draw the ex-employee's attention to the confidentiality or sensitivity of the information imparted?

Particulars of the nature of the information sought to be protected

It is insufficient for the ex-employer to rely solely on a general statement that the information which he seeks to protect is confidential in nature. In seeking a remedy against the employee, the employer must be able to reinforce his allegations with particulars of the precise nature of the information sought to be protected (see Tang Siew Choy & Ors v Certect Pte Ltd).

In Lock International Plc v Beswick and Ors [1989] 3 All ER 374, it was held by the court that :

"It was the essence of a claim against an employee for misuse of confidential information that the employer should be able to identify with particularity the trade secret or similar confidential information to which he laid claim and the terms of any injunction had to be capable of being framed in sufficient detail to enable the employee to know exactly what information he was not free to use on behalf of his new employer."

It was further observed by the court that:

"in cases in which the plaintiff alleges misuse of trade secrets or confidential information concerning a manufacturing process, a lack of particularity about the precise nature of the trade secrets is usually a symptom of an attempt to prevent the employee from making legitimate use of the knowledge and skills gained in the plaintiff's service".

"…technical processes….such as the electric circuitry in this case…may look like magic but turn out merely to embody a principle discovered by Faraday or Ampère".

An assessment of the particulars of the nature of the information alleged to be a trade secret will therefore provide vital clues as to whether the information is in fact unique to the ex-employer's business and whether it can be isolated from other information which effectively forms part of the ex-employee's personal skill and personal fund of knowledge and experience which he is free to use in making a living. The fact that the alleged trade secret is part of a package and that the remainder of the package is not confidential is likely to cast light on whether the information in question is really a trade secret or is of a nature which is equivalent thereto.

Restrictive Covenants

Whilst it is straight forward enough for an employer to extract a covenant from an employee not to divulge the employer's confidential information or trade secrets (as it were), the policing and enforcement of this covenant is, for obvious reasons, fraught with difficulty once the employee leaves the employment.

Needless to say, some employers will seek to reinforce the employee's obligation of confidentiality with restrictive covenants, a common example of which is the covenant on the part of the ex-employee not to enter into the employment of a competitor for a certain period following the termination of the employment. Issues of public policy dictate however that such covenants in restraint of trade must be subject to the close scrutiny of the courts to ensure that they are drafted no wider than that reasonably necessary (whether in scope or with respect of the length of time) to protect the legitimate interests of the employer.

This is consonant with the general principal that the court will not enforce a covenant if its primary function was purely to inhibit competition in business. It is also consistent with the court's exhortation in Tang Siew Choy's case that the court must be conscious of the need for proportionality between the perceived threat to the employer's rights and the consequences of granting the remedy.

Whilst it is beyond the scope of this article to provide a comprehensive and critical analysis of what renders a restrictive covenant reasonable, it is significant to note, in relation to the ex-employee's obligation of confidentiality, that once a restrictive covenant can be said to be drafted reasonably, the onus is then thrust upon the employer seeking to enforce the covenant to establish it has a legitimate interest to protect.

What amounts to a legitimate interest? Certainly, as has been observed, employers have a legitimate interest in protecting their confidential information. But not all confidential information

will be protected by way of a restrictive covenant. In Medivac International Management Pte Ltd v Moore, the court adopted the following view which is exemplary of the perspective taken by the courts in many of the decided cases dealing with restrictive covenants:

"an employer could not restrict the use or disclosure of confidential information by a restrictive covenant in the employee's contract of employment unless the information sought to be protected was a trade secret or equivalent to a trade secret".

Accordingly, the legal principles which are applied by the court in determining whether an alleged confidential information amounts to a trade secret capable of protection post-employment, can similarly be applied to determine whether an employer has a legitimate interest to protect by way of a restrictive covenant.

Conclusion

Employers have a legitimate interest in protecting their confidential information. Where there is a written contract of employment between two parties, the obligations of the employee to his employer are to be determined from that contract. There is some authority for the proposition that if parties have expressly identified the categories of information which they consider to be the trade secrets of the employer, the court may uphold the terms of that contract by preventing the ex-employee from divulging those categories of information set forth in the contract.

In the absence of any express terms, however, the obligations owed by an ex-employee to his ex-employer are subject to implied terms cultivated from the fundamental obligations of good faith and fidelity. With respect to the implied obligation of confidence, this obligation is restricted to that of keeping an ex-employer's trade secrets (or confidential information akin to trade secrets) confidential.

Similarly, whilst the obligation of confidentiality can be reinforced by restrictive covenants, the ex-employer must, in seeking to enforce such a covenant, establish that it has a legitimate interest, in the form of a trade secret or confidential information akin to a trade secret, to protect.

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March 2003

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