Sharing secrets

How to make sure your competitors don't learn your best ideas

Interviewed by Sue Ostrowski

Most employers don't set out to steal trade secrets. They're simply looking to hire the best person — someone who has experience in the business, who knows the customers the company wants, and who understands the products and the industry.

But the inevitable disclosure doctrine may put your company at risk if the person you hire is someone who possesses trade secrets from a competitor, says John Susany, chair of the litigation and employment group at Stark & Knoll Co., L.P.A.

"The court has found that if you leave one job and you possess confidential information, or trade secrets, and you go to another employer who's in the same business and you are working in the same or a substantially similar position, it is inevitable that you will disclose trade secrets you acquired in your old job," says Susany.

"That has permitted employers to sue former employees and their new employers, even when no restrictive covenants or non-compete agreement exists with the former employee."

Smart Business spoke with Susany about what qualifies as trade secrets, how to make sure they don't get out and how to protect your company when hiring an employee from a competitor.

John Susany
Chair, litigation and employment group
Stark & Knoll Co., L.P.A.

What qualifies as a trade secret?

A trade secret is information that derives independent economic value from not being independently known. That can include technical information or a secret formula such as the recipe for Coke. It could also cover processes and, in some instances, customer lists and financial information, and pricing can also be categorized as trade secrets.

The most important factor about trade secrets, as the name implies, is that they must be secret. They must be known only to people in your company or your control group and known to no one else, because if they're known publicly, they're not a secret.

How can a company protect its trade secrets, and how can doing so protect it in the event of a lawsuit?

One of the first things asked in any court hearing over trade secrets is, 'What efforts did you take to maintain their secrecy?' You need to take steps such as stamping documents: 'Confidential.' Financial information, customer information, sales history and any information that gives your company a competitive advantage should be maintained in a computer that's password protected. In addition, the number of people who have access to that information should be limited to those for whom it is absolutely necessary. Your employee handbook should also identify your trade secrets and explicitly state that the employees have a duty to protect them and not disclose them.

If you do these things, it's hard for anyone who leaves your company to say he or she didn't know something was a trade secret.

There are also agreements you can put in place. The least restrictive is a confidentiality agreement, which says that former employees can work wherever they want, they can call on whomever they want, but they can't use the former employer's trade secrets to benefit themselves or their new employer.

Second is a non-solicitation agreement, which says that former employees can work wherever they want, but they can't call on the customers of their former employer. The third is a non-compete agreement, which says your former employees can't work in your industry, or in a specific geographic area in the industry, or for a specific competitor.

It puts you in a stronger position to protect your trade secrets if you've identified them, you've informed people of their confidential nature, you've restricted them and you use agreements to protect that confidentiality.

What can you do when an employee with access to your trade secrets leaves to work for a competitor?

Typically, if an employee left a company for a competitor and had a restrictive agreement in place with the former employer, that forms the basis of a lawsuit against both the employee and often the new employer. Those agreements are enforceable even if you fire someone or lay off the employee. So you don't need to worry about negating the agreement by letting an employee go.

However, in recent years, there has been a new doctrine of law — the inevitable disclosure doctrine — that allows employers to go after a former employee, even if he or she didn't sign any type of agreement.

That can cause a problem for employers who are hiring someone from the same business. So you have to be very careful. You could be well intentioned; you could have no desire to steal or misappropriate anyone's trade secrets; but just by hiring an employee from a competitor, you could be exposing yourself to this type of potential liability.

How can employers protect themselves when hiring from a competitor?

When hiring from your own industry, ask the potential employee if he or she is subject to any restrictive agreements or covenants. If he or she is, you really need to assess whether you can fit that person into your organization and put that person in a position that doesn't violate the express language of the contract.

If someone doesn't have something in writing, you still have to understand what that person's job was with the former employer, whether he or she was exposed to trade secrets, and whether by placing him or her in the same or a similar position at your organization, it would be inevitable that he or she would disclose those trade secrets. You really have to assess where you're considering placing that person in your organization. But, beware even if a company does everything right, it can still get hit with a lawsuit under the inevitable disclosure doctrine. If that happens, the care you took in hiring works as a strong defense. <<

JOHN SUSANY is chair of the litigation and employment group at Stark & Knoll Co., L.P.A. Reach him at JSusany@stark-knoll.com or (330) 572-1324.

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