

An Employer's Guide to Protecting Trade Secrets

by Shariffullah Majeed and Shivani Sothirachagan

Wherever you are around the globe, there is almost certainly a law that relates to the way one should deal with confidential information that one accessed by reason of employment. With the rapid advancement of the competitive market, it is more important than ever for companies to identify their confidential data and institute measures to preserve and protect such information from employees who decide to leave the company.

What are trade secrets?

The Malaysian Intellectual Property Association (MIPA) defines trade secrets as information that must not be readily accessible to persons who deal with such types of information. It must also be information that has been imparted to the person in circumstances that give rise to an obligation of confidentiality.

What constitutes a trade secret depends on the business. It can be a manufacturing process, a "secret sauce" or products in development. A prosaic example of a trade secret would be a company's customer profile.¹ This is valuable to the company as it would provide an informational edge over competitors, but should the competitors have the same information, it becomes significantly less valuable. The list of what comprises confidential information is not exhaustive.²

Protecting the secret sauce

Putting safeguards in place not only protects trade secrets, but also shows interested parties — such as a judge — that the company had endeavoured to protect its confidential information should a dispute ever come to litigation.

So, how do employers protect their secrets?

Pre-employment

Begin with a well-drafted company policy, which should be detailed out in an employee handbook. The policy should include confidentiality provisions and well-drafted covenants to ensure that employees are not able to set up in competition, join a competitor, poach the employer's clients or entice away its employees.

Once a policy has been set up, designate an individual responsible for implementing and enforcing all aspects of the employer's trade secret compliance programme, which should include the classification of the confidential information, controlling the dissemination and access to information, recovering possession of classified information at exit interviews, and responding to questions relating to the protection of trade secrets.

During employment

Education. Employees should be made aware of the employee handbook and the relevant policies governing trade secrets. Merely stating such a provision in the company's Employee Handbook which may contain the full terms and conditions of service will not suffice to make it effectual. A set of those terms and conditions of service should be made available to the workman for his inspection and, more importantly, for his cognition. The burden is on the employer to show that this was done.³

Training. Make trade secret protection a part of the employee's orientation and training programme. A full briefing should be given on the continuing duty and legal obligations of the employee to protect the employer's trade secrets.

Non-disclosure agreements. Insisting that employees with access to trade secrets sign a confidentiality or non-disclosure agreement is perhaps the most important element in safeguarding trade secrets. In the simplest of

¹ *Schmidt Scientific Sdn Bhd v Ong Han Suan* [1997] 5 MLJ 632

² *Alfa Lval (M) Sdn Bhd v Ng Ah Hai & Ors* [2008] 5 MLJ 344

³ *Ho Seng Fatt v Strateq System Sdn Bhd* (Award No 279 of 2019)

terms, a non-disclosure agreement should establish that the employer has confidential information that must not be disclosed, detail the actions that the employee must take if the information is improperly disclosed and reserve for the employer legal remedies in that instance.

Technology. With today's technology, the entirety of an employer's most significant information can be uploaded to a device the size of a thumbnail and taken by a departing employee, with possibly devastating consequences. Companies should ensure that a confidential stamp is placed on every print or electronic copy of each document. Employers should take advantage of technology to prevent non-compliance with its policies as well as to detect misuse of the confidential information. Employers should also restrict access to confidential information to those who have a need to use such information in the course of their employment.

Social media. It used to be that disclosure of confidential information could be sometimes contained by placing individuals receiving information on notice of the confidentiality. With social media, however, an accidental or purposeful disclosure is practically impossible to undo or repair. Therefore, crafting a social media policy that will protect the employer's confidential information and limit communications with customers will be vital. Employers should always review advertising and promotional materials before publication to ensure that they do not inadvertently disclose trade secrets.

Post-employment

Prior to the employee leaving the company, an exit interview should be conducted to discuss what trade secrets the employee was exposed to during his or her tenure, as well as to remind the employee of any ongoing obligations with respect to confidentiality. The restrictions on trade secret use that survive employment need to be emphasised. Employers should also retrieve all operation manuals, training manuals, software, customer lists and all other tangible confidential information in the employee's possession.

Quick fix

A secret is no longer a secret once it is divulged.⁴ Nevertheless, when confidential information has been divulged, an employer may make an application for an injunction restraining further disclosure of the confidential information. Should the employer have a good reason to believe that there is a real possibility of the information being destroyed or further replicated, a search order in the form of an Anton Piller order allows for a search of premises or the seizing of evidence without warning. Anton Piller orders must be made with haste.

Conclusion

Failure to identify and take steps to protect trade secrets poses an unnecessary risk of loss to an organisation. Employers can, and should, maximise and protect the value of their trade secrets by implementing appropriate procedures.

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⁴ *Dynacast (Melaka) Sdn Bhd & Ors v Vision Case & Anor* [2008] 10 CLJ 190