

Protecting Employers' Confidential Information

By **Shariffullah Majeed***



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In any industry, trade secrets are regarded as valuable assets that must be protected. Confidential business information which provides an enterprise a competitive edge may be considered a trade secret.¹ It is no secret that the highest risk that employers face in managing their confidential information is that their own employee may misappropriate the trade secrets to the company's detriment. The misappropriation of a company's confidential information is very much prevalent especially in this current age of information technology.² Thus, it is very important for employers to protect their trade secrets.

What is a trade secret?

Trade secrets generally refer to confidential information that is fundamental to the success, development and well-being of the business. It can be part of a company's unique selling proposition in its industry. Trade secrets can be classified into two types:

Technical Secrets

- The production of goods and services for example; recipe or ingredient, formula, chemical composition, engineering design, mechanical structure, and etc

Business Secrets

- Customer and supplier lists, costing, business strategies, specific needs and requirements of customers and the status of on-going negotiations with the customers.

Duty of good faith or fidelity

According to s 26 (2) of the Copyright Act 1987 where an original work is made by an employee in the course of his employment, the copyright in the original work will be deemed to be transferred to the employer and is therefore the employer's property, subject of course to any agreement between the parties excluding or limiting such transfer.

There is an implied duty that prohibits the employee from using any confidential information obtained during his employment, without the employer's consent, for his own or someone else's use after the employment contract ends.³ Therefore, an action by an employer to restrain a former employee from using, divulging or disclosing confidential information belonging to the employer is not a restraint of trade as it is based on the employee's breach of duty of fidelity to his employer and under the general law of confidence.⁴

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¹ www.wipo.org.my

² www.fas.org.my

³ *Schmidt Scientific Sdn Bhd v Ong Han Suan* [1997] 5 MLJ 632

⁴ *Ibid*

An employee may have his employment terminated for disclosing a company's confidential information to outsiders when the employer had specifically instructed the employee not to disclose such confidential information to others. The employee might also be sued for breach of confidentiality.⁵

Practical suggestions to protect the company's confidential information

An understanding of the terms of employment contract is important. Employees who are not aware of the confidentiality agreement are much more likely to break the agreement. Therefore, it is prudent for employers to carefully go over the confidentiality with a new employee and stress the importance of that particular piece of paper before the employee signs it.

The following are some practical suggestions how companies can protect their confidential information:

- Ensuring policies are well drafted to include confidentiality provisions. A well-drafted confidentiality clause will offer some protection of the company's legitimate interest.
- Develop and implement in-house security measures where access to confidential information by staff should be restricted by management on a "need-to-know" basis. In addition, password protection on confidential electronic documents will be necessary.
- It is common for companies to enter into specific non-disclosure agreements or confidentiality agreements, for example, with senior employees who may be involved in ad hoc economically sensitive projects.⁶
- One of the best ways to protect confidential information is with a "confidential stamp" which is placed on each electronic or hard copy of a document. It is preferable that this stamp appears on each page.⁷
- Review current contracts of employment and seek legal advice. Further to that, a review of the company's IT user policies and the systems in place to monitor compliance with those policies would also be a prudent step to take.⁸

Conclusion

Nevertheless, it must be borne in mind that skills and knowledge gained by an employee in his trade or profession which he had learnt in the course of his employment are not trade secrets. A former employee is entitled to make use of the knowledge and skill acquired during the employment after his termination and he may set up in business in competition with his former employer, and use such knowledge and skill in the pursuit of that business.⁹

This is certainly in line with general principles which allowed competition and is consonant with s 28 of the Contracts Act 1950:

Agreement in restraint of trade void

Every agreement by which anyone is restrained from exercising a lawful profession, trade, or business of any kind, is to that extent void.

⁵ Shamimi Saberi & Dr S Nadarajah, "Confidentiality at the workplace", *theSun* (6 August 2012)

⁶ Vanitha Sundra-Karean, *Employment Law and the Theory, a Malaysian Focus with a Comparative Perspective* (CLJ Publication 2012) at p 228

⁷ www.australianbusinessjournal.com

⁸ hrlaw.co.uk

⁹ Dr Jariah Abdul Jalil, *Confidential Information Law in Malaysia, Case and Commentary* (Sweet & Maxwell Asia, 2003) at p 126

When dealing with confidential information an employee has a duty not to use, or divulge, and disclose, the information to others outside the employment or to make copies of the information for the purpose of using them after termination of employment.

In today's digital world, losing one's trade secrets can happen at any time, with little warning, and sometimes with no redress, unless proactive steps are taken. Hence, a protection plan should be customised to reflect the type of information and the commercial realities of the industry.

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