

**PROTECTING CONFIDENTIAL INFORMATION AND TRADE  
SECRETS**

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A contract that provides for the non-disclosure of confidential information is a contract of confidentiality. Confidential information constitutes the essence of every business. Disclosure of such information may be potentially damaging to a company and provide an unfair advantage to its competitors. Protection of confidential information, therefore, assumes tremendous importance.

**What information is confidential?**

In the business world, confidential information includes information that qualifies as a trade or business secret. A trade secret is defined as any information that is not known outside the company and which is not readily ascertainable by proper means, thereby giving the company an advantage over its competitors. Whether any information is a trade secret depends on a variety of factors, such as the extent to which the information is known outside of the company's business; the extent to which the information is known by employees and others involved in the company's business; the measures taken by the company to guard the secrecy of the information; the value of the information to the company and to its competitors; the money or effort expended in developing the information; and the ease with which the information can be duplicated by others. Examples of trade secrets include methods of production not protected by patent, testing procedures, processes, designs, formulas and software.

**How can confidential information be protected?**

The general law relating to breach of confidence prohibits an ex-employee from using information which can be identified as the property of his/her ex-employer and separate from the employee's original knowledge. However, the general law does not prevent employees acting in concert from leaving their employer and setting themselves up in competition with the employer. Moreover, there is no rule of law or equity that restrains a company or individual from seeking out a competitor's employees and offering them employment, provided that there is no breach of the employees' service. Therefore, although the disclosure of confidential information per se may be protected, confidential information may be

leaked in any of the foregoing ways. It is recommended that an employer enter into restrictive covenants with the employee embodying the aforesaid points. A covenant, covering clearly defined activities in which the employee would be likely to use confidential information, relieves the employer of the need to prove that the employee subjectively appreciated the confidentiality of the information in question, or that the information was separable from the employee's general trade knowledge.

### **Validity of confidentiality agreements**

A confidentiality agreement should not be wider than necessary; otherwise it will be void. An employer should not impose a restriction that prevents the employee from using in competition with the employer the skill, aptitude and general technical knowledge acquired by him in the course of his employment. Further, section 27 of the Indian Contract Act, 1872 ("Act") states that agreements in restraint of trade are void. Based on judicial decisions, an employer cannot prevent an employee from working with a competitor beyond the term of his original contract.

### **Enforceability of contracts of confidentiality**

If it is found that the employee is likely to misuse confidential information obtained while in employment, the employer is entitled to an injunction preventing such misuse. However, an injunction cannot be granted to protect the employer for misuse that has already taken place. For such past misuse, the employer is entitled only to damages, as otherwise, this will go against fair competition.

The injunction should not give a competitive advantage to the employer, as for example no injunction should be granted if an employee obtains the information independently from the market.

Additional remedies include an award of damages for loss of profit because of diminution in the employer's business or damage to the employer's goodwill. However, these are not granted in the absence of detailed evidence to that effect.

### **New horizons**

There is a need for a well-defined law to protect trade secrets and confidential information in view of the changing nature of business. In this context, it is

worthwhile to note the international developments in this field. Article 7 of the Trade Related Aspects of Intellectual Property agreement provides for the protection of undisclosed information. To conform with this, the United States has a Uniform Trade Secrets Act (UTSA) under which the theft of trade secrets, either in the US territories or on the internet outside the US, is a federal criminal offense in the US. Similarly, the data protection enactments in the European Union impose an obligation on companies processing data to ensure non-disclosure and mis-use by their employees and contractors. India needs to move speedily in this direction.

### **Guidelines to employers**

Till such time as a law is enacted in India, Indian companies should take the following steps to protect confidential information.

- (i) Companies should ensure that before disclosing confidential information to employees, a non-disclosure agreement is in place.
- (ii) Companies should ensure that the confidential nature of the information is expressly communicated to the employees before disclosure.
- (iii) Companies should restrict the number of employees having access to confidential information at any point of time.
- (iv) Companies should mark files and relevant documents as confidential.
- (v) Companies should have in place proper security systems for computers and networks. Passwords should be provided and changed frequently.
- (vi) Companies should have in place proper policies for document retention and destruction.
- (vii) Companies should very clearly set forth the standards of non-disclosure of confidential information in the employee handbook.
- (viii) Companies should take special care when an employee is leaving the company. The employee should be reminded of his obligations and asked to deposit all confidential material in his possession.

- (ix) A covenant of non-disclosure should also include a clause whereby the employee is under an obligation to disclose to the employer any confidential information acquired in the course of employment, which is in the nature of a trade secret for the company but unknown to the employer.