

Employment and Labour

JUNE, 2001

Protecting Your Interests As An Employer After Employees Leave

Non-Competition Covenants Are Not The Best Protection

Today's business environment requires that employers make every effort to ensure that employees who have left their employment do not go on to make improper use of the confidential business information, technological information and client relationships belonging to their former employer. In attempting to protect themselves, employers too often rely upon only non-competition covenants. However, as courts continue to show an increasing reluctance (if not an outright refusal) to enforce non-competition clauses, employers must consider other methods of protection against the actions of departed employees. This is particularly true, given that these other methods may well provide sufficient protection. This update will review these other methods of protection.

The interests which an employer may need to protect include:

- confidential and proprietary information;
- trade secrets;
- client relationships;
- employee and consultant relationships;
- potential business opportunities;
- inventions and works created by an employee during and in the course of their employment; and
- conflict of interest situations.

In determining the appropriate method of protection, an employer must first determine:

- the information in need of protection; and
- the actions of the former employee against which the employer requires protection.

These are the first steps in determining what methods the employee should use in protecting that information.

Non-Competition Covenants

A non-competition covenant is intended to prevent a departing employee from competing either by joining the competition or by establishing a competing business. If the covenant is too broadly drafted, or if it attempts to cover business interests beyond that which is required to provide legitimate protection to the employer, it will generally be unenforceable.

In order to have any chance of enforceability, a non-competition covenant must generally protect a legitimate proprietary interest (eg. trade secrets, confidential information or business interests) which belongs to the party seeking to enforce the covenant and must be reasonable with respect to duration and geographic scope.

Standard form or "boiler-plate" documents should be avoided, and appropriate consideration should be provided to the employee in exchange for the covenant.

THE UPDATE (CONTINUED)

Employers should also keep in mind that the Ontario Court of Appeal has recently stated that, in general, a non-competition covenant will not be enforced if other forms of protection would adequately protect the employer's interests. As a result, the most critical question to ask may be whether a non-competition covenant is actually required or whether the other methods of protection which are reviewed below will provide adequate coverage.

Confidentiality or Non-Disclosure Covenants

A confidentiality or non-disclosure covenant is intended to protect an employee's proprietary or confidential information and trade secrets from disclosure by employees during and after employment. As employers may be particularly vulnerable to the continued use of their confidential information by former employees, this type of covenant may be the most important protection which an employer can seek. While an obligation of confidentiality is arguably an implied term of all employment relationships, the execution of a written confidentiality agreement may further strengthen an employee's understanding of this obligation and an employer's potential enforcement of its right in this area.

Confidentiality agreements will only be enforced by courts if the information to be protected has the necessary characteristics of confidentiality. These include the fact that the information at issue must be information:

- from which the employer's competitor can benefit, in a commercially or other significant manner;
- that is particular to the operation of the company, rather than just its general organizational methods; or
- which is in the nature of unique skills particular to the company or vital corporate information which the employee possesses.

In addition to being confidential, the information must also be treated as confidential and imparted to the employee in circumstances which indicate to the employee that it is intended to be treated as confiden-

tial. Therefore, information will not attract the required protection if it is information readily available to the public or already in the possession of the employee prior to their employment.

Key elements of confidentiality agreements include:

- clear identification by type or category of the information which the employer considers to be confidential;
- a promise by the employee to keep the information in confidence except to the extent necessary to perform their duties for the employer; and
- a promise by the employee to return all confidential information at the end of their employment.

It is also important to consider whether consultants, temporary personnel and any other parties to whom access to confidential information is given should also be required to sign confidentiality agreements.

Non-Solicitation Covenants

A non-solicitation covenant prevents an employee from soliciting the employer's clients and/or other employees, contractors and consultants for a specific period of time following the end of employment in order to provide protection against "raiding" of an established customer base and other employees of the company.

Courts impose the same obligations of reasonableness when asked to consider whether a non-solicitation covenant should be enforced. As a result, the "subject matter" must be one in which the employer has a legitimate business interest. Therefore, a covenant which tries to restrict an employee from contacting either potential clients or clients with whom they had no contact, is likely to be unenforceable.

Assignment of Works and Inventions

It is also important that an employee assign to their employer all of their rights to any invention or work which they create in the course of their employment to prevent against the improper use of such invention or works post-employment. Such assignments are particu-

larly important as the law in this area indicates that absent such an agreement the following ownership rights may be asserted by employers and employees:

- For patentable inventions, an *employee* has a presumptive right to ownership of the inventions made in the course of employment.
- For copyrighted materials, an *employer* has a presumptive right to ownership of the copyrighted materials made in the course of employment.
- An employee has a moral right to copyrighted materials they have produced. This places some limits on what employers can do with copyrighted materials.

Conflict of Interest and Corporate Opportunities

Employers may also gain protection from signed agreements which restrict departing employees from placing themselves in a conflict of interest with their former employer, or opportunities which properly belong to the corporation.

As with any problem, *prevention* is the best strategy. To the extent possible, the expectations during and after employment should be documented in a fair employment contract with reasonable restrictive covenants, drafted so as to protect only those interests that the employer absolutely requires. Contrary to an

employer's (or its lawyers') first instincts, the objective is *not* to negotiate for as much protection as possible, since this may ultimately be unenforceable and, therefore, counter-productive.

A covenant providing the *minimum* protection legitimately required may have the *maximum* likelihood of enforceability.

If you require assistance in drafting, reviewing or enforcing restrictive covenants or agreements affecting employees, please do not hesitate to contact any of the following lawyers who are practising in Goodmans' Employment and Labour Group.

Joe Conforti 416.597.4177
jconforti@goodmans.ca

John Brookes 416.597.4125
jbrookes@goodmans.ca

Suzy Kauffman 416.597.6281
skauffman@goodmans.ca

Rebecca Burrows 416.597.4102
rburrows@goodmans.ca

Ghada Sharkawy 416.597.4130
gsharkawy@goodmans.ca

Requests for additional copies of this communication or changes of address
should be directed to Sandy Mitchell at smitchell@goodmans.ca

GOODMANS

TORONTO • VANCOUVER • HONG KONG

www.goodmans.ca

© Goodmans
Printed in Canada