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PRESERVATION OF TRADE SECRETS AND NON-COMPETE AGREEMENTS: THE ELEMENT OF REASONABLENESS AND CONSEQUENT ENFORCEABILITY

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ABSTRACT

Businesses run on ideas and concepts. The level of creativity involved in coming up with the ideas endears clientele to them and separates them from similar businesses. The imperative need for businesses to keep their product formula free from public utilization and exploitation sometimes necessitates their self-seeking advances to keep their employees from working with their rivals. With numerous resources available for the purpose of protection of trade secrets, businesses and organisations are more encouraged to explore one or more of them. The most common of these resources is the non-compete agreements employees are made to sign before assuming their duties. This invariably keeps them from releasing trade secrets with companies that stand to profit from such knowledge. One of the challenges that may arise is the enforceability status of the agreement. What factors incline the court to grant judicial remedies in respect of a non-compete agreement? Do these types of agreements advocate for the interest of both the employer and the employee? How reasonable are the restraining clauses inserted to impede the career chances of the employee? What effects do these types of agreements have, particularly on the disadvantaged party? How do the courts determine if a non-compete agreement is enforceable? These are questions that this article seeks to provide answers to. It concludes by recommending that such agreement ought not be verbose as to be ambiguous and broad in its applicability. This research work is essentially qualitative and was written with the aid of data from journal articles, judicial decisions and statutes.

Keywords: Trade Secrets, Non-Compete Agreement, Intellectual Property, Non-Disclosure Agreement, Employment.

INTRODUCTION

To understand trade secrets it is important to have background knowledge of intellectual property generally and the different ways intellectual property is safeguarded, such as copyright, trademark, and patents. Intellectual Property refers to the portion of law which is concerned with preventing other people from taking undue advantage of or copying the work or reputation of another person especially when such persons have been granted exclusive rights to a variety of intangible works (Adekola T.A & Sunday C. E, 2015). World Intellectual Property Organisation (WIPO) defines it as the creations of the mind, such as inventions, literary and artistic works, designs and symbols, names and images used in commerce. It refers to creations of human intelligence and these are protected from non-authorised use by others This area of law seeks to protect rights of persons both artificial and natural in the following categories: trademarks, copyrights, patents and trade secrets. There is a recent addition to the areas of intellectual property which is publicity rights law (Adekola, T & Sunday, E). These types of intellectual property protect different areas of the subject. A brief definition would be provided on each of them:

1. TRADEMARK/SERVICEMARK:

Any word, phrase, logo or other graphic symbol used by a manufacturer or seller to distinguish its product from those of others and a commercial substitute for one's signature is a trademark. Rather than being descriptive, it thrives in its distinctiveness. Instances of trademarks are Innoson Vehicles, the flowing handwriting of Coca Cola, Apple gadgets, Samsung products, etc. A servicemark is essentially a trademark only that it differentiates itself in the sense that it applies only to services rather than goods and products. For instance, MTN's *Everywhere You Go* references the telecommunication service rendered by MTN, the logo of United Bank for Africa draws attention to the banking services the company has to render.

2. COPYRIGHT

According to Black's Law Dictionary, this is a property right in an original work of authorship like literary, artistic, musical, photographic, or film work situated in any tangible medium of expression, conferring on the holder the exclusive right to reproduce, adapt, distribute, perform and display the work. Chimamanda Ngozi Adichie has copyright in the novel, *Americanah* and any reproduction of such work in a way not authorised by the relevant law would be an infringement on her right. Orlando Owoh had exclusive right to the song Iyawo Asiko and granted permission to the late Nomoreloss to sing another version of it. Radio and television programmes also enjoy copyright.

3. PATENTS

It refers to an exclusive right granted for an invention, which is a product or a process that provides, in general, a new way of doing something, or offers a new technical solution to a problem

4. TRADE SECRETS

Black's Law Dictionary defines trade secret as a formula, process, device, or other business information that is kept confidential to maintain an advantage over competitors. This information includes a formula, pattern, compilation, program, device, method, technique or process that derives independent economic value from not being generally known or readily ascertainable by others who can obtain economic value from its disclosure or use. Usually a trade secret is kept confidential and information on it is consciously not released to the public purview. The formula or process deployed by the company or business in coming up with its products is what makes it peculiar from its competitors. A long-speculated trade secret has been the formula used by Coca Cola to produce its drink. In its 128 years of existence, this information is known only to the very few that are involved in the production. This instance emphasises the need for protection of trade secrets to enable companies maintain a competitive edge over their contemporaries.

THE UNDERLYING ESSENCE OF TRADE SECRETS IN CORPORATE MATTERS

According to Coe R. N. (1994), trade secrets disputes arise when staff of affected company exercises the option to resign and go work in another company which competes with the initial company in the same market space. Such company has to balance its employee's right to transfer his service to another firm with the company's right to protect any secret or formula which gives it a competitive edge over its competitors. What qualifies any information to be considered a Trade Secret? Under section 7 of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Article 39 provides in paragraph 2 as follows:

"Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices so long as such information:

a. *is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;*
b. *has commercial value because it is secret; anpd*
c. *has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret."*

From the definition given earlier, a trade secret ranges from a formula to a technique. It could also be list of customers or clientele, suppliers, business plans, the price used to purchase the raw materials used in manufacture of products, contents of laboratory notes, etc.

An information categorised as a trade secret need not be registered unlike patents, trademarks or copyrights which must be registered for them to qualify as such. Non-registration does not preclude it from enjoying protection under the law.

What are the cogent reasons why a business's trade secrets should not enter the public space? Why do companies go to extreme lengths to keep their knowledge confidential? And what is the rationale behind non-compete agreements? Is such type of contract, legal and therefore, enforceable? These are questions that would be attempted subsequently.

BUILDING A FORTRESS AROUND TRADE SECRETS

Priority is attached to TS by companies that have them in comparison with the other IP rights (Linton, K. 2016) Any company with TS has created a value that cannot be duplicated elsewhere; otherwise, there would be no basis for securing it from public knowledge. TS are protected by law for the purpose of promoting commercial ethics and fair dealing standards. TS law also seeks to create business incentives with the aim of facilitating innovation by securing the capital and bulk of the time that has gone into the development of the highly beneficial innovations. Thirdly, the law guarantees the preservation of TS to prevent rivals from accessing them without bearing the burden of the risk involved in creating it or the cost incurred in the development of the innovation.

Owing to the numerous benefits they offer, TS are considered quite important. One of the gains is that the spectrum it covers is quite broad, and any creation that is not covered by the other IP rights can fit under TS. Hull, J. (2019) stated that there are no limitations in respect of

subjects that can be subsumed under it. According to Linton (2016), they cover almost all categories of information that are valuable and consequently, steps are taken to keep them secret. It is an area of IP that can be secured by the company or the firm without recourse to governmental assistance or procedures such as registration. Such companies

can develop their own standards for protecting them. They are shareable with competitors and employees and are therefore considered innovation-friendly (Hull J. 2019)

The lengths companies go to protect their TS is consequently because they stand to lose too much if it is compromised. Justifiably, the statistics of companies that have suffered from industrial espionage keeps increasing. By reason of the fact that they do not require governmental participation to be secured, companies device their own measures to keep TS, secret, with some of these measures being technological, or legal. The technological range of protection includes putting valuable information on a storage site which is quite secure with passwords and encryption. Legal security options are rooted in the enabling laws governing TS, which empasise that companies must be seen to have taken reasonable steps to protect their TS. In Nigeria, TS is not provided for in the form of legislation but the law of contract and torts are applied in the determination of a breach or otherwise. It encompasses remedial options provided by the courts such as injunctions and restrictive covenants inserted into employment contracts whose sole purpose is to prevent a former employee from working with the competition after his term of employment ends with the substantive company. Most businesses now sign Non-disclosure Agreements or Confidentiality Agreements with their employees in order to prevent leakage of vital trade information or formula. Others mandate the execution of a Non-Compete Agreement that legally holds an employee from crossing over to another company with similar products or services, or dissuades poaching of employees by rivals.

NON-COMPETE AGREEMENTS

An employer has the legal right to hire any person he is desirous of recruiting, just as an employee has the choice to quit work at a firm and decide to cross to another firm whose business interests are inclined in the same direction as his former employer, or not. A strategy for preventing free work migration is non-compete agreements. This is an agreement which compels an employee that is about leaving a company from going to work for a rival company, regardless of if he or she was fired or he or she willingly resigned his employment (Smith, N.2018). It is a common strategy employed to secure not only the loyalty of the employee, but to keep him from the temptation of disclosing valuable information and statistics to companies that would profit from it, thereby, putting the employee's company in a competitive disadvantage. Other reasons for it were given in the case of *Insurance Field Services, Inc v White & White Inspection* 334 So.2d 303 (Fla. 5th DCA 1980):

1. to substantially utilize the investments made in the employee through trainings and pecuniary benefits like allowances.
2. for the protection of their customers' goodwill. This discourages and sanctions the employee from poaching customers to his own business.

A typical non-compete agreement contains clauses restricting the employee from disclosing TS or any other confidential information, while the contract subsists, and also after it expires. It may also reflect provision that prevents him from using research work which was done during the course of the employment, if he is employed by a competitor. It sometimes highlights the list of companies or businesses the employee is disallowed from working for and this type of agreement usually has duration of some years (Marx M. & Fleming L. 2012).

In a similar vein, the employee could be mandated to accede to a provision which limits him from establishing his own company or business in the same line of business or within the same area or location, whenever his contract of employment comes to an end. The employee who violates any term of the agreement is subject to pay damages, usually liquidated, to the company.

The use of this type of agreement cuts across all manners of companies but they are especially synonymous with companies which provide high-technology services or designs such as companies such as Apple, Google and Facebook. Also, companies which render medical services or produce medical equipment, resort to NCA.

THE ENFORCEABILITY OF NON-COMPETE AGREEMENT

NCA is an effective internal mechanism whose main purpose serves the employer's interests rather than the employee. It helps to increase technology clusters (Smith N. 2018) It also prevents high turnover rates of employees and a reduction in recruitment costs. The downside is it serves an embargo on the employee's career trajectory as he is unable to cross over to the company of his choice. This, in the view of Marx and Fleming (2012) allows employers to "set monopoly prices" on their staff's skills. This has the adverse effect of preventing the worker from enjoying salary increase, an exploitative mechanism used by the employer because the worker cannot resign and go work for a rival company.

Generally, a NCA is a disincentive for staff morale and it forces them to take lower paying jobs if they resign, or are sacked. It is argued that, rather than promote innovation and research, it de-motivates staff from putting in their best. Others change sectors or industries, in order to earn a wage (Marx M. & Fleming L. 2012). In American states such as California which has a preponderance of high-tech companies sited therein, NCA are not enforceable and for good measure. Whenever the court has to decide on the enforceability of a NCA, it weighs the employee's right and interest to work for pay and the company's right to be protected from unfair competition and would only rule in the favour of the employer where its interests exceeds those of the employee. The courts in Michigan go the extra mile of sieving the contract to find clauses that are unreasonable and ruling against the enforcement of such contract. Any agreement that restricts the employee from working for a period exceeding three years would be considered not reasonable, as limitations to the employee working anywhere in the country as compared to working within a smaller geographic location such as state or district.

Deductively, a signed NCA may not be enforceable at law if the courts deem it an injustice against the employee or even contrary to public policy as it was held in *Nordenfelt v Maxim Nordenfelt* (1894) A.C. 535; thereby undermining its validity. In this locus classicus case that established the principle against NCA, the appellant who sold his gun manufacturing business to the respondents signed an agreement that precluded him from working for a competitor within a geographical area that was limitless, for 25 (twenty-five) years. He stopped complying with the term of the agreement after a while and started working for a rival company, a fact which instigated legal action by way of injunction against him. At the House of Lords, Lord McNaughton stated that it is only when clauses on restraints of trade are reasonable not only to the respective parties involved, but also in respect to public interest, that they would be upheld.

In Nigeria, companies have not shied away from requesting their employees to sign NCAs in order to safeguard their TS. The courts have played the role of veritable umpire in nullifying agreements that are unjust and unreasonable while seeking to protect companies' valuable trade information. In the case of *Koumolis v Leventis Motors Ltd* [1973] NSCC 557, the Supreme Court held that the employer has the responsibility to prove that a covenant restraining trade is crafted for the purpose of protecting "*some exceptional proprietary interest of the employer…..And depending on how the is framed, an employer can lawfully prohibit the employee from setting up on his own, or accepting a position with one of the employer's competitors, so as to be likely to destroy the employer's trade connection by a misuse of his acquaintance with the employer's customers or clients."*

In the case of *Aprofim Engineering Nig. Ltd v Bigouret & Anor* Unreported Suit No. CA/J/308/2006, the Court of Appeal held that the clause which restricted the appellant from working for any company involved in similar business with the defendant/ respondent during the course of employment and also within six months of his employment being

terminated; countered the provisions of section 17(3) (a) (e) of the 1999 Constitution as amended and therefore, void to the extent of its inconsistency. Arguing on the non-justiciability of Chapter 2 of the Constitution which informed the Court of Appeal's judgment, Yekini and Anjorin stated that the court's decision was hinged on the wrong path as no provision of the chapter was enforceable by reason of the provisions of section 6 (6) (c) of the Constitution. It can therefore not be said that an employment contract is null and void because it is contrary to section 17 which among other things states that all citizens are entitled to secure "adequate means of livelihood as well as adequate opportunity to secure employment.

The agreement in question is considerably reasonable in that the period of limitation is apparently a fair time within which to prevent a former employee from working for a rival company. The duration is too negligible as to have substantial impact on Monsieur Bigouret's earning capacity. The appeal court did not give much weight to this fact before upholding the decision of the lower court. In the words of Abubakri Y. and Tanimola A. (2016) the decision failed to adhere to International Best Practices as contracts are only declared unenforceable or invalidated where they are found to be unreasonable. In aligning with their point of view, it should be noted that the section of the Constitution held to have been violated is a section in respect of which every court in Nigeria is precluded from determining "*whether any act or omission by any authority or person is in conformity with the Fundamental Objectives and Directive Principles of State Policy*", as are all the sections in Chapter 2 of the Constitution. The application of the provisions threw the court's decision in a skewed light as NCAs do not necessarily undermine the provisions of the Constitution except where the terms of the agreement are quite unreasonable. Inability to work for half of the year is by most standards, reasonable, in comparison to other NCAs that preclude the employee for more than 2 years.

The National Industrial Court considered the reasonableness of the NCA in the 2018 case of *Infinity Tyres Limited v Mr Sanjay Kumar & 3 ors* Unreported Suit No. NICN/LA/170/2014 where the defendant, consequent to the termination of his employment, breached the restrictive clause that provided that he must not work with any other company in Nigeria for a period of 1 year after the end of his employment. The court held that by reason of the fact that a NCA restrains trade as a covenant, it is unenforceable unless it can be proven that it is reasonable and consequently, enforceable by the court. The court found in favour of the employee defendant by determining the reasonability with regards to the area of coverage geographically, the coverage of the economic activity and the length of the clause's applicability. It was held that, precluding the defendant from working for "any other company in Nigeria" was too broad and unreasonable. Usually, companies simply stretch the coverage of the agreement to companies that carry on similar activities or offer the same product. Broadening the clause's applicability is therefore an undermining decision which the court could inteprete as being unreasonable.

There are instances where the court can infer element of malice in the leakage of vital information and this influences the court's decision in favour of the employer. In *Hagerty, Lockenvitz & Associates v. Robert E. Ginzkey* 85 III. App.3d 640 (1980) 406 N.E. 2D 1145, upon contracting with the employer not to compete with the company's advertising business for a year, he took on clients of the employer in violation of the terms of the NCA. The court awarded damages in the sum of $7,313.72.

LEGAL REMEDIES FOR BREACH OF NON-COMPETE AGREEMENT

1. Injunction which seeks the court's help to hold the employee or ex-employee bound to the terms of the NCA.
2. Damages which could be compensative, punitive or liquidated.

CONCLUSION

A NCA remains a viable option for securing TS not only if it favours the employer but considers the effect of the provisions on the employee's right to work elsewhere, and particularly if it is not contrary to public policy. However,

the courts examine the facts of each case critically before ruling either way. Hence, the fairness of a NCA depends on the length of time it operates, the geographical extent of its reach or limitation, and also the weight attached to the trade secret for which protection is being sought. It is advised that it should not be too ambiguous or extended to cover much more than would be deemed reasonable by the court. Regardless, despite taking all of that into consideration, the court may still not uphold the terms of the agreement.

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