

INTER-RELATION BETWEEN HUMAN RESOURCES AND TRADE SECRETS PROTECTION IN ABSENCE OF A SPECIFIC TRADE SECRET LEGISLATION

Written by Luv Virmani

Legal Associate, Nanavati Associates, Ahmedabad

ABSTRACT

The unexplored inter-relation between Human Resources and Intellectual Property Rights is a consequential symbiosis of highly complex employer-employee relationship. The augmented intricacy of personnel management and behavior of employees at workplace has lit up the unmapped peculiarity of Human Resources department vis-à-vis trade secrets. These two different torrents run in together and verge into a new brook which can lead to the addressing of some noteworthy and hidden problems. Apart from discussing about the focus and attention that the human resources management of an organization should give towards intellectual capital, this paper, through certain facts and propositions, puts forth the mechanism that can be used by the HR management to protect the trade secrets of that organization in the scenario of absence of a specific trade secret legislation, thereby defining this crucial relationship that has been underexplored till now.

INTRODUCTION

Being the bundles of valuable business information, knowledge and ideas, trade secrets can be the success formula for an organization as they provide significant competitive advantage to the organization and have huge economic value attached to them. Trade secrets are not evolved overnight and can take years of research and skill to be developed. Trade Secrets are not generally known to others and it is vital to maintain their confidentiality, which requires a lot of effort. Examples of trade secrets include formulas, practices, and processes, marketing strategies, product pricing, manufacturing processes and other such competitively valuable

information. Some of the well-kept trade secrets include formula of Coca-Cola, Chartreuse liqueur, several sauces and recipes of KFC and McDonalds.

As per The United States Uniform Trade Secrets Act, a trade secret is “information, including a formula, pattern, compilation, Programme, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. As per the North American Free Trade Agreement (NAFTA), a trade secret is any “information having commercial value, which is not in the public domain, and for which reasonable steps have been taken to maintain its secrecy”.

The two terms ‘trade secrets’ and ‘undisclosed information’ are generally used interchangeably.

The TRIPS Agreement requires three essential conditions to be met by any ‘information’ to be covered under the purview of ‘undisclosed information’:

- The information must be secret, i.e., not known or accessible to others,
- Such information must have commercial value and provides economic benefit to the holder of the information because it is secret and,
- The information must be the subject of reasonable steps by its owners to keep it secret.

Importance of protection of trade secrets: In order to run the business in an effective manner and to adequately protect the rights of an employer as well as the employees, multi-dimensional protection by law is crucial. Organizations regularly share confidential competitive information with their employees, who, when they go on to work for other organizations, ultimately risk the confidentiality of this competitive information which is proprietary to the previous organization. In fact, an organization is required to share a lot of such valuable information with not only employees but also licensees, suppliers, manufacturers, etc. However, protecting such information from unwanted sharing, leakage or unauthorized/illegal disclosure is also equally essential.

There have been a lot of instances wherein important information of companies have been leaked by its employees. The vulnerability of such essential information gives rise to the need

to protect trade secrets, a concern that is lately brought to notice by the MNCs who are either already established in India or are planning to expand their operations in India.

INDIAN SCENARIO: HOW WELL DOES THE LAW POSITIONS ITSELF

A neglected area in IP laws, trade secrets have evolved over the years to become one of the most significant areas in the business sector. Unlike in most countries of the West, no specific and comprehensive laws to protect trade secrets have been enacted in India, despite India being a contracting party to the TRIPS. Trade secrets in Indian system are protected insufficiently and in an indirect manner under the provisions of contract law and sometimes by criminal law and copyright law. Hence, not much action can be brought against a person for illegally disclosing the confidential information of an organization. Moreover, as per Section 27 of the Indian Contract Act, every agreement by which a person is restrained from carrying on any trade, business or profession, is invalid. Therefore, restrictive covenants and non-compete agreements, both of which are highly essential in protection of trade secrets, are brought within the ambit of Section 27 of the Contract Act and are hence rendered invalid. Thus, the protection of trade secrets in India is mostly based on principles of common law like breach of trust and breach of confidence.

The existence of a huge business environment in India makes it imperative for the country to increase its standards with regard to the protection trade secrets. The inadequacy of the Indian legal system to adequately protect trade secrets has lead to some of the infamous instances such as the BPO case of 2002 wherein a former employee of Geometric Software Solutions Ltd, an Indian software vendor, was caught while attempting to sell the proprietary software source code of Solid Works, an American client of Geometric Software Solutions Ltd, to the competitor of Solid Works. However, he could not be effectively prosecuted in India because the source code was considered a trade secret and Indian law does not recognize 'misappropriation' of trade secrets.

In the year 2005, another such issue came up in the case of M/s Ambiance India Pvt. Ltd. vs. Shri Naveen Jain , wherein according to an Agreement signed in the year 2003 between the plaintiff employer and the defendant employee, the latter, shall not engage in any other business

or employment and would not divulge anything which may adversely affect the business of the plaintiff company, and that during his tenure and for 3 years thereafter, the defendant shall not reveal any trade information of the plaintiff, and for a period of 2 years after the termination of the service, he would not take any employment or deal with the plaintiff's present or past customers, vendors, agents, prospective customers, etc. However, in 2004, the defendant left the plaintiff's company and joined one of the customers of the plaintiff. An injunction was sought by the plaintiff against the defendant to restrain him from continuing in such employment and from divulging information, know-how and trade secrets which he had acquired during his employment with the plaintiff-company. The Court held that in a business house, the employees discharging their duties come across so many matters, but all these matters are not trade secrets or confidential matters, the divulgence of which may be injurious to the employer, and therefore the restrictions imposed upon the defendant in the Agreement were void and unconscionable.

There have been many other instances of an employee, or rather a team of employees leaving an organization and joining a competitor company or setting up their own company, whereby they use the previously built client relationships and extended client network on a professional as well as personal level, and replicate their organization strategies with slight changes. Although such acts can be controlled by non-compete Agreements, but the Doctrine of Restraint of Trade 'saves' the employee from being prosecuted.

Alternatives relied upon in absence of trade secret law:

Protection of trade secrets has garnered the Indian Courts' attention lately due to increase in number of cases of unlawful disclosure of confidential information of several companies. The absence of law on the same has made it an even more discussed area of law that requires immediate solution. Recognized in many jurisdictions of the world as a part of IP and one that needs specific protection under law, trade secrets are still subject to non-compete and non-disclosure agreements in India, only the violation of which, is considered as disclosure of trade secrets. Therefore, non-compete and non-disclosure agreements form an essential part of the present trade secrets protection regime in India.

HOW DOES HUMAN RESOURCE COMES INTO PLAY

As already mentioned, the sharing of confidential information with the employees is crucial in order to run the business effectively; however, the risk involved from the very first day of such sharing is that when the particular employee switches to another organization, the confidential competitive information is at the risk of being 'shared' with a competitor. Therefore, it is the task of the organization to make sure that its confidential information remains within its 'boundaries' and is not disclosed to the competitors. This is exactly where comes the role of HR department which, apart from talent acquisition, performance appraisal, employee retention, etc., ensures the loyalty of the employee towards the organization, and can implement a number of effective and efficient strategies that can significantly reduce, control and prevent the disclosure of trade secrets of an organization.

Human Resources department is designed to deal with employees and issues related to employees such as hiring, compensation, grievances, training and development. Formerly known as Personnel Management, it covers a vast area but can be broadly divided as below:

- Talent acquisition: comprising of sourcing, interviewing, thereby recruiting people with smooth induction and on-boarding, employee benefits and wellness.
- Talent management and development: Training, performance appraisal, employee engagement events, grievance management, retention strategies, communication intervention, defining HR policies.
- Exit management: Exit interviews, suave handover

Focused towards recruiting a potential resource and thereby leading to its development integrated with organization's progression, a key role that the HR management plays is setting the expectation at the initial level of hiring, which is in two forms at the recruitment level:

1. Job description: defining nature of work, key role and responsibilities.
2. Appointment letter & Offer letter: formal letter describing position, salary benefits, confidentiality & Intellectual property rights policy clauses and all other necessary information about the work.

Communication is something which defines the strategy and creates openness within the firm, hence developing an amicable culture sustainable for employee to grow and focus on the path to success. Something which is imperative for any firm or organization to proliferate is by encompassing a two way and streamlined communication, be it in terms of company's

strategies, ethical approach, values, rules and regulations. Clear, flawless and incessant communication always eases expectation setting with employees.

ROLE OF HR IN DEVISING STRATEGIES TO PROTECT TRADE SECRETS

The employees of an organization hold the essential competitive knowledge and the loss of employees means the loss of such knowledge. It can also include past, present and prospective client contacts. There have been numerable instances of a group of employees quitting an organization and setting up rival company putting in use the goodwill, knowledge and information acquired at their previous company. An organization cannot do much about such a situation in absence of registration of its IP, and therefore the organization has to largely depend upon the employee contract. However, in absence of such employee contracts such as non-disclosure or non-compete agreements, the resources and capability of the HR department become non-substitutable.

- **Retention:** Employee retention is defined as the ability of an organization to retain its employees, calculated by subtracting leavers count from that of total employee in a certain duration or said period. Retention is attributed to the skills and capability that an organization adopts to make the workforce willing to stay with them. Major emphasis is laid on retention strategies since the success of any business is primarily due to its key resources i.e. employees. Retaining critical individuals attributes to the overall success and progress of the organization and also shapes up the career path of the employee.

Rather than bearing the cost of replacing an employee, it is undoubtedly better to spend some cost in retaining the existing employee as the former is 50-60% higher than the latter. Employers ensure conducive work culture, lucrative rewards, timely recognition, and healthy work-life culture for employees to curb attrition.

In the words of Maya Angelou- "People will forget what you said, but people will never forget how you made them feel." Laws and commandments are equally important to prohibit any misuse of rights but creating an overwhelming relationship can sticker the cordial relationship thereby forming inclusive work environment.

- **Contract** with the employee during the employment period and signing of the contract during exit to revive and reinstate contract highlights and prohibiting the person to replicate any design or strategy formulated during the course of employment with organization.

The clauses should be applicable to each and every employee irrespective of the designation or cadre since, being an employee, everyone has access to firm's innovative policies and work. The IP related clauses of the contract generally provide that any information or data related to customer, vendors, or operations is proprietary to the organization and should be preserved confidentially. Therefore, with the help of IT policy and data protection policy of the organization, the contract can restrict storage of information on external electronic devices.

Prospective strategies that can be implemented by HR to protect trade secrets:

HR professionals should consider trade secrets protection at every stage of employee lifecycle and due course of employment. Below mentioned are few means that can be of help in trade secrets protection:

- Inclusion of clearly demarcated provisions in employment contracts regarding ownership and use of confidential data, information and any official material pertaining specifically to the employer.
- Lay down and ascertain IP policy and establish ways of communicating it to the employees.
- Reinforce IP policy through regular awareness-raising and training activities.
- Educate employees to record valuable, confidential information in permanent form – for example, by including any client/customer related information in official database, and further use cloud based technology available through the employer for the storage of any official information.
- Using structured and methodological approach towards exiting employees by asking them to refrain from publicizing or using company related information thereby intending to protect company's IP.

There can be a lot of ways that can be adopted by human resource department for protecting the IP rights and creating awareness amongst employees to refrain from indulging in any organization's 'stature-damaging' and 'information-leak' activities:

- By conducting sessions through trainings, workshops and seminars on specific rights, responsibilities and liabilities employees have towards organization.
- By briefing the clauses added on IPR in Appointment/ Offer letter.

- E-learns could be one way where such modules are cohesively elaborated in animation or gamification modules making easier for employees to perceive the importance and legal implications associated with forfeiting of company's information or products.
- Easy access of policy manual and SOPs (Standard operating procedures), wherein employees can refer and understand the scope of their work and independence to share or broadcast information.
- Laying down clear and distinct regulations towards disclosure of information on social media and public forums and meetings.
- Embarking the limits of revelation and disclosure of company's confidential data and information.
- Emphasis on the use of advanced technology to record confidential information in a permanent cloud based software such that internal data is prohibited to be stored on personal systems and is of access only when in official network.

CONCLUSION

In the absence of specific law for protection of trade secrets, the role of Human Resource department in a business organization becomes all the more important so as to keep it running successfully and avoid hurdles like 'disclosure of confidential information'. The HR management plays an integral role in protecting the business as well as managing competitive confidential information and data of an organization. The instances of unauthorized disclosure and illegal 'sharing' of confidential information by existing and former employees is increasing and therefore, the role of HR, if developed in this aspect, can solve the purpose to a great extent.