MINIMIZING THE RISK OF EMPLOYEE THEFT OF TRADE SECRETS

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Every manufacturing company has confidential information that serves as the "secret sauce" of the company and provides the "competitive edge." The value of this information, which the law labels as a "trade secret," is derived from its secrecy. Simply put, when the secret recipe is unlawfully disclosed to the public, and, more importantly, to competitors, the company loses significant revenue.

That is why employee theft of trade secrets poses a significant problem in the manufacturing industry. A stronger economy brings more companies fighting to fill quality jobs, which in turn gives more leverage to employees for better pay and benefits. The tale is too often told: an employee abruptly resigns from his employer, and, on his or her last day, downloads company documents from computers, takes hard files and leaves the office, only to travel to the nearest competitor for a nearly identical job. The former employer is left wondering what to do to stop the potential damage and loss of competitive edge. Oftentimes, the answer lies in the filing of a lawsuit, and significant expense for all parties for the next few years.

This article does not discuss the litigation of trade secret claims; that topic, while interesting to lawyers, is one that often gives company principals migraines. Rather, this article seeks to rewind a few steps and examine how companies can minimize the risk of employee theft of trade secrets and avoid the extra costs that litigation brings. The following are five important best practices for companies to protect their competitive edge:

Safeguard Your Trade Secrets

The first step for a company to protect itself against trade secret theft sounds obvious: safeguard your trade secrets. And yet, several companies struggle with this concept and treat their "secret sauce" as something to be widely shared, internally and externally. This is a mistake.

The federal Defend Trade Secrets Act ("DTSA") provides a statutory remedy to employers for trade secret theft and unlawful disclosure (labeled by the DTSA as "misappropriation"). However, in order to invoke the protections of the DTSA, a company must be able to establish that it has a "trade secret." And, the key attributes of a trade secret are that it is secret and adequately safeguarded.

Companies should conduct an internal "trade secrets" audit in order to understand how their trade secrets are protected. This audit asks a few fundamental questions, namely: (1) what are your trade secrets (in other words, what information gives you a competitive edge); (2) where do they exist; (3) if existing in electronic form, are they password protected; (4) is access restricted to a need-to-know basis; and (5) what policies and practices are being followed regarding the taking of trade secrets off of company property, servers or databases.

> IF AN EMPLOYEE IS IN A POSITION OF IMPORTANCE, CONSIDER PROVIDING THEM WITH AN EMPLOYMENT AGREEMENT WITH IMPORTANT PROVISIONS THAT SERVE TO PROTECT AGAINST UNFAIR COMPETITION.

This audit should also assess whether a company shares its trade secrets with non-employees such as vendors, independent contractors or others, and what safeguards are in place regarding these third parties. These questions are crucial for maintaining rights under the DTSA; companies who fail to safeguard their trade secrets risk losing any legal protection.

Focus on Key Employees

Before a company hires anyone, it should understand the three categories of people who traditionally cause the most unfair competition and employee theft scenarios. They are: (1) sales people (i.e., those who interface with customers); (2) technical people (i.e., those who develop information technology and intellectual property for the company); and (3) managers and principals (i.e., those who intimately know the company's business and strategies).

These three categories of people account for over 90% of the employee theft cases that make their way to the courts. That is why a company should hire these employees carefully, and after a full vetting of previous employment background histories and interviews. And, these three categories of employees should potentially be required to agree to certain contractual obligations, as discussed below.

Use Restrictive Covenants Effectively

If an employee is in a position of importance, consider providing an employment agreement to the employee with important provisions that serve to protect against unfair competition. These include "restrictive covenants," such as non-competition, non-solicitation and nondisclosure clauses. Restrictive covenants, if properly drafted, serve to not only provide a contractual remedy to employers in the case of employee theft; once agreed to, they also provide a significant deterrence to the employee to commit misconduct.

Using an attorney to draft an agreement with restrictive covenants is necessary. Under Illinois law, non-competition and nonsolicitation clauses must be reasonable, i.e., no greater than necessary to protect a legitimate employer interest. Courts will strictly read the restrictive covenant, and construe it in favor of the employee as much as permissible under the law. An attorney will be able to advise on the "outer edges of reasonableness" when it comes to drafting these clauses. Business should also be aware of Illinois' rule regarding "adequate consideration"; Illinois courts require that companies provide something of value to an employee in exchange for signing a noncompete, usually something other than the employee's job (if the employee is an "at-will" hire).

There are other important contractual clauses that serve to protect a company's proprietary information, such as clauses on conflicts of interest, intellectual property ownership, and obligations of the employee upon

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resignation or termination. These should all be included in an employment agreement.

Maintain a Healthy Workplace Culture

One of the primary reasons for employees leaving their employers (and potentially taking trade secrets with them) is that they had low morale and were tired of working in an unhealthy workplace culture. The best way to avoid instances of employee theft is to maintain a good morale in the office; the happier employees are, the less likely they are to leave.

In order to maintain this culture, companies should: enforce workplace policies fairly; adequately compensate those employees who are integral to the business; incentivize "above and beyond" work; and discipline or terminate employees who violate company policies and are toxic to the workplace. And, companies should take discrimination and harassment issues and investigations especially seriously, as a failure to do so will almost certainly motivate good employees to look for a new job.

Follow the "Exit Plan"

Finally, businesses should internally have an "exit plan" in place that provides for the steps to be taken once a key employee (i.e. a sales, technical or managerial employee) resigns or is terminated. These steps include reminding the employee of his or her contractual obligations and potential restrictive covenants. Businesses should also collect any and all company property from the departing employee, including any electronic devices.

Furthermore, the employee should be immediately shut off from any further access to company trade secrets, such as databases, cloud services or email servers. And, as to any returned devices, they should be preserved until the company has made a decision as to whether to use a forensics consultant to investigate any theft. Finally, the company should monitor social media and other public forums to determine whether the employee has joined a competitor and is working in a similar role to his or her previous employment. This will inform the company as to whether litigation is a necessary next step.

Companies who follow these five best practices will be in a strong position to safeguard against employee theft of trade secrets and confidential information, and, most importantly, minimize the risk of litigation. And, where a lawsuit is actually needed to safeguard rights, companies who employ these best practices will have a strong case to present in court. ◆