

# iGlobal Strategic Guidance Series 3: Business protection

## *(1) Taking a global view*



Your employees no doubt are your greatest assets but like all assets, they can bring non-criminal business risk. Protection against those risks need not be difficult or costly but many international businesses overlook the benefits of having in place strong global employee business protection plans. The costs of not having one can be surprisingly high.

This edition of the iGlobal Strategic Guidance looks at the main risks and the core elements of a worldwide employee business protection plan and its implementation.

We have included for illustration a high level snapshot of key jurisdictions worldwide.

## What do you need protection from?

Most businesses need to consider protecting themselves in the following areas:

**Intellectual property** – who owns a piece of valuable IP (design, patent, copyright, know-how) developed by an employee during their employment?

**Confidential information (trade secrets)** – some of your employees will have access to client lists, pricing, supplier lists, strategic plans and IP/know-how for the purpose of their employment

**Trade connections and relationships** – your employees may build up valuable business relationships with your clients and suppliers in the course of their employment

**Talented/valuable employees** – your most talented employees may be targeted for recruitment by departing or former colleagues or by your clients

**Conflicts of interest** – employees taking on other work outside working hours for third parties (e.g. on the internet) that risk causing competitive harm or reputational damage to your business

## For the global employer, what are the main challenges?

### Laws and Courts

- Countries that don't recognise IP or non-compete covenants
- Countries where the enforcement process is prohibitively long, expensive, uncertain or heavily weighted towards the employee or their new employer
- Wide variations between countries, particularly when it comes to IP and covenants: what can be protected, for how long and at what cost
- Under developed business protection laws, especially in some smaller countries

### Employment Documentation

- Clauses that are unenforceable because they are poorly drafted or fail to take proper account of the local law and the circumstances and role of the employee
- Global policy documents (e.g. NDAs, Covenants in Stock Plans or Global Bonus Schemes, Business Conduct and Ethics Policies) that are unenforceable at local level – perhaps because of the wrong choice of governing law or because they were not executed in accordance with strict local requirements
- Inconsistencies between global documents and local documents, for example, a global document may contain a restriction stated to apply for one year while the local document applies a six month period for the same covenant

### Poor Management of Documents

- Local HR agreeing to ad hoc amendments that weaken protection; failing to update the business protection clauses in line with changes in local law or the employee's role, seniority or main work location
- Obtaining an unnecessary restrictive covenant in a country where compensation is payable: this can be an expensive error on termination of the employment

### Monitoring Legal Developments

- How to keep on top of business protection issues as the law changes across multiple jurisdictions
- How to keep on top of document changes that track an evolving business and an employee's changing role

### Lack of Strategic Approach

- No internal strategy that supports the employment documentation; for instance no policy on who has access to confidential business information, thereby reducing the ability to argue it is confidential at all; no training of staff or monitoring outcomes
- No strategic approach to restrictive covenants – what does your business really need in each country?

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## Inducing a New Employee Breach

- Business protection is also about protecting your business from rogue employees who breach covenants/obligations to their former employers. In some countries, you can be sued if you knew about the breach and encouraged it or even, did nothing to prevent it

## A Strategic Approach to Employee Business Risk

### Assess the Legal Issues and Employee Roles in each of your Jurisdictions

- Map the business protection enforceability in each of your jurisdictions for (1) IP; (2) restrictive covenants; (3) confidentiality (4) compensation; and (5) court access and performance
- Map the roles, grades and countries (or states/regions) which require business protection measures. Not all roles need protection.

### Agree a strategic approach

- Choose a clear approach for each role in each country. For example, a global approach to restrictive covenants might be: (a) in countries where no covenant compensation is payable > always include; (b) where compensation is payable but the covenants can be waived on termination to avoid compensation payments > always include but make sure your HR systems implement the waiver when needed; (c) where compensation is payable and you cannot waive the covenant on termination > only include for roles that clearly need protection
- Have a well understood and consistent approach to employment documentation: centralised with local variations or wholly local (see below)
- Have clear lines of authority for negotiating and signing off employment contracts – beware local drift
- Where local enforceability is poor have a pre-agreed, pragmatic approach to a breach

## Have the best employment documents

- Ensure your documents reflect your business practices and needs – if not, they may not be enforceable
- Decide on a centralised or localised approach to employment documentation: the centralised approach (global template with local variations) is easier to control but risks being less enforceable; local contracts can be highly tailored but are less manageable and lead to variations across the group, undermining a ‘one business’ ethos
- Decide whether the business protection measures should all go into one document (the employment contract) or be split into separate documents – e.g. a separate non-disclosure agreement - the latter has the advantage that you can update it regularly without having to issue an entirely new employment contract
- Have in place a monitoring and updating system that picks up local changes in the law and makes any necessary adjustments to employment documentation – it will be cheaper in the long run to do a quick review annually than a major review periodically
- Require new hires to undertake that they are not in breach of any prior restrictions to former employers
- Consider obtaining updated non-disclosure or trust and confidence agreements from employees at milestone events such as the grant of shares or payment of bonuses, promotions or salary increases

### Aim for deterrence anyway

- Even where the local courts will not enforce IP or restrictive covenant provisions consider including them as a deterrent or moral obligation
- Where permitted, make use of penalty clauses by which the employee indemnifies you for their breach
- Ensure your employment contract contains rights to monitor employee activity during employment, the right to request the employee signs an undertaking of compliance and the obligation to notify a new employer of his or her continuing obligations to you

### Decide how you will enforce

- Have an agreed enforcement policy, possibly for each country: aim for the best deterrent approach in the context of each jurisdiction

| Country      | IP Protection (P)<br>Compensation (C) | Business Secrets<br>protection? | Covenant payments<br>required? | Penalty clauses<br>allowed?<br>Restrictions apply. |
|--------------|---------------------------------------|---------------------------------|--------------------------------|--|
| Australia    | P                                     | P                               | No                             | Yes  |
| Belgium      | P                                     | P                               | Yes except for<br>salespersons | Yes  |
| Brazil       | P and C                               | P                               | Yes                            | Yes  |
| China        | P                                     | P                               | Yes                            | Yes  |
| France       | P and C                               | P                               | Yes                            | Yes  |
| Germany      | P                                     | P                               | Yes                            | Yes  |
| Hong Kong    | P                                     | P                               | No                             | No, generally                                      |
| India        | P                                     | P                               | Not applicable                 | Yes  |
| Italy        | P and C                               | P                               | Yes                            | Yes  |
| Japan        | P and C                               | P                               | No but good idea               | Yes  |
| Mexico       | P and C                               | P                               | No                             | No, generally                                      |
| Netherlands  | P                                     | P                               | No                             | Yes  |
| Singapore    | P                                     | P                               | No                             | No, generally                                      |
| South Africa | P                                     | P                               | No                             | Yes  |
| Spain        | P and C                               | P                               | Yes                            | Yes  |
| UK           | P                                     | P                               | No                             | No, generally                                      |

**KEY**

**P = Protectable via robust clauses in the contract or separate NDA**

**C = Compensation must be paid to the employee for IP protection**

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