

How to manage trade secrets

What is a trade secret? Part II

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The term reasonable is a generic and relative one and applies to that which is appropriate for a particular situation. Various factors influence whether a particular action or set of actions is considered reasonable.

The dictionary defines reasonable as an intelligent approach supported or justifiable by reason; fair, proper, sound behaviour that avoids needless error and steers clear of extremes. Reasonable is like sensible, logical, practical and well advised.

In the Law of Negligence, the reasonable person standard is the standard of care that a reasonably prudent person would observe under a given set of circumstances. An individual who subscribes to such standards can avoid liability for negligence. Similarly a reasonable act is that which might fairly and properly be required of an individual.

Reasonable & IP

Why is it important for the IP community to have a good understanding and appreciation of this particular word and what it means in practice? Allow me to link the two together.

Trade secrets can be one of the most important assets in the intellectual property portfolio of an organization. Trade secrets are at least on a par with other forms of intellectual property such as patents and trademarks. Some would argue that trade secrets are the crown jewels of any intellectual property portfolio.

A trade secret is a formula, practice, process, design, instrument, pattern, commercial method, or compilation of information which is not generally known or reasonably ascertainable by others, and by which a business can obtain an economic advantage over competitors or customers. The scope of trade secrets is virtually unlimited.

A trade secret continues for as long as the information is maintained as a trade secret. However, information may no longer be considered to be a trade secret once it becomes easily accessible, is no longer properly protected or has no commercial value.

What's most interesting here is that it requires the trade secret owner to take reasonable steps to keep it secret.

This implies that a company must actively do something. Doing nothing is not acceptable. Organizations possessing trade secrets need to take reasonable efforts to protect these assets.

Generally, the more control there is place over access to and use of the information – marking documents, limiting distribution, restricting access physically or technically, having strict contractual provisions and monitoring thereof – the higher the likelihood of that information being protected by trade secret law.

There is always going to be a trade-off for companies. The greater the level of protection in place, the more cumbersome it may be for the company using that information. However, if the information is truly valuable, then the company is likely to find that inconvenience worthwhile. So, I would strongly argue therefore that reasonable steps here consist of a combination of administrative, technical and legal measures.

Administrative measures

Administrative measures may include having robust trade secret policies and procedures in place. At a minimum, a reasonable policy should require that a company identify trade secret material as just that, with a big 'Trade Secret' stamp on the document itself. Then limit the number of people who have access to the trade secret. Educate the employees about the trade secret policy of the organization.

Technical measures

Technical measures may include various access control and security measures to make it difficult for the trade secrets to be stolen. With the increase in cyber security threats, hacking, electronic espionage, malware, etc. trade secrets that are stored in electronic format must be properly protected.

Legal measures

Legal measures may include special confidentiality agreements in place with those individuals given access to the trade secrets, non-compete clauses in their employment contracts, and standard contract provisions with respect to trade secrets with 3rd parties.

Best practice

When considering what qualifies as reasonable, I suggest that companies should also look at best practices in this area. Best practice refers to commercial or professional procedures that are accepted or prescribed as being correct or most effective.

I do accept that it does vary greatly from one company to another on how they actually manage their trade secrets. However best practice suggests the following:

Starting from the top, governance, which includes:

Assigning ownership of the trade secret management process to someone senior in the organization.

Having a robust fit for purpose trade secret policy and associated procedures in place.
Utilizing confidentiality agreements as these play an important role in protecting trade secrets.
Having an awareness and education program to ensure that all employees are aware of this trade secret policy and associated procedures. This can be included within a broader intellectual property awareness and education program.

Next, it is important to keep track of trade secrets and the following activities should be carried out:

Determining which types of information should be deemed as trade secrets within the organization, and the qualifying criteria.
Identifying all of the trade secrets across the organization and mark these documents in the proper and professional manner. Of course this inventory of trade secrets will change over time as new trade secrets are identified and perhaps some older trade secrets no longer warrant being treated as such.

Classifying these trade secrets in terms of the nature of the secret, the date created, responsible person(s), etc. etc. plus of course the value of the trade secret to the business.
Determining the administrative, technical and legal measures that are needed to properly protect each trade secrets. The exact measures may differ from one trade secret to another.
Conducting regular trade secret audits.

Third key pillar, security. This would include:

Ensuring fit for purpose access control measures are in place.
Putting effective computer security measures in place.
Having the appropriate physical security measures in place for the office and other business premises, to keep unauthorized persons out.
Ensuring IP issues in general and trade secret issues specifically are addressed in both entry interviews of new employees and exit interviews of departing employees.
Developing contract provisions and working mechanisms in relationships with outside business partners, including joint venture partners, to protect trade secrets.

Some seem genuinely surprised to hear that trade secrets can be valued and that those involved in the valuation of intangible assets and IP are also capable of conducting a trade secret valuation exercise.

IP in its various forms is increasingly used as the basis of many business and commercial transactions. It is fundamental for company valuations (merger, acquisition, bankruptcy); negotiations (selling or licensing); dispute resolution (fair recovery and quantification of damages); fundraising (bank loans and raising capital); assisting in decision making (corporate strategy); and reporting (tax and accounting) – and this includes trade secrets as well. The terms value and valuation and their cognates and compounds are used in a confused and confusing but widespread way in our contemporary culture, not only in economics and philosophy but also and especially in other social sciences and humanities. Their meaning was

once relatively clear and their use limited. Value meant the worth of a thing, and valuation meant an estimate of its worth.

Simply put, information to qualify as a trade secret must have value, now or in the future. If the information has no value, then it is not a trade secret. This aspect of trade secrets will be explored in more detail in another of the videos in this series.

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Some would argue that trade secrets are the crown jewels of any intellectual property portfolio.

However, they are fragile and only are of value if kept secret. They can add tremendous business value, so they need to be properly and professionally managed, and looked after.

Companies need to understand trade secrets and appreciate that deciding to keep something as a trade secret is not the end but rather the beginning of an interesting journey, and that there are a number of challenges to be overcome.

Many companies fail to create a "culture of confidentiality" when it comes to protecting their valuable trade secrets.

If a company does not take reasonable steps to protect such assets, then such assets may become extremely fragile and be impossible to defend in court.