# The Inherent Weaknesses in the Law of Confidence for Protecting Innovative Computing Ideas

By Michael Schwanzer, April 2008
MSchwanzer@uclan.ac.uk

Submitted as Assignment 2
CO3603 Computers, Society and Law
School of Computing, Engineering & Physical Sciences
University of Central Lancashire

# The Inherent Weaknesses in the Law of Confidence for Protecting Innovative Computing Ideas

- Protection of Innovative Computing Ideas
- Law of Confidence
- 'non-disclosure' & 'non-competition' agreements

**Introduction**

There are several ways of protecting innovative computing ideas but they all of them have advantages and disadvantages. The legal protection of these ideas is still in continuing evolution because computing is such a fast changing environment. Furthermore, expert knowledge is one of the most important ingredients of software and hardware, especially when it comes to innovations.

The computing industry knows this best and therefore tries to protect their products as good as possible trough a wide range of mechanisms. Therefore, a combination of patents and copyrights is used to defend their intellectual property from theft. But the thefts do not always have to be company outsiders. Over the years, the entrainment of knowledge through former employees who get hired by competitors got a serious problem within the industry. That is where the *Law of Confidence* comes into play and with it the weakness of it to protect theses innovative ideas in the computing industry. This growing dissatisfaction established persistent pressure on governments, national and international, to establish more powerful mechanisms.

This article explains the *Law of Confidence* briefly and gives an overview on how it is applied to protect innovative computing ideas. Recent cases and law journal articles are enclosed to explain the problem domain and to evaluate the topic. Furthermore, this article gives an overview on the approaches for solving this rising challenge within the computing industry. Due to the tight involvement of the computing industry into international aspects through outsourcing tasks and the Internet, there is also a section about international issues.

**Law of Confidence / Confidentiality**

The goal of the Law of Confidence, or an action for breach of confidence, is to protect confidential information from being illegitimated used by a third party. The law provides a remedy in case confidential information is passed on. Therefore, it has to be defined what makes information confidential before an action for breach of confidence can be filed. According to Kalton, M. (2000), the following three criteria has to be satisfied:

- Information has to be confidential (either expressly or implicitly)
- Disclosure of the information must have been in circumstances, which give rise to an obligation of confidence
- There must be an actual or anticipated unauthorised use or disclosure of the information

**International weaknesses in the Law of Confidence**

The weaknesses in the Law of Confidence in international context are similar to the problems Patent law has: limited scope and extent, patchy coverage;

According to Van Caenegm, W. (2002), there are global treaty systems relating to intellectual property (IPR) law and trade (TRIPS – Agreement on Trade-related Aspects on Intellectual Property Rights / WTO – World Trade Organisation), but IPR's are in fact still local. But he also mentions that in some trading blocks there is a slow movement towards multilaterals forms of protection, like the European Patent Convention.

The international aspects of confidence and patent protection is especially important in the computing industry because in times of globalisation and the Internet information spreads quickly. That means without a worldwide legislation for confidential information and patents, companies have difficulties to protect their innovative ideas.

Intellectual Property Rights and their transfer in the UK are regulated under the Competion Act 1998 and the Treaty of Rome.

**What does that mean in the context of Computing?**

Innovative Computing Ideas mean competitive advantage for the company who comes up with the idea. If the idea cannot be protected as Intellectual Property by patents (which is not easy in an international context, as it is explained in the section before), the company needs to keep the idea as a secret, as long it is not ready for the public as a product, to gain the maximum commercial value out of it. Therefore, the company needs to ensure that its employees, who actually develop the product and have valuable knowledge about it, keep the information about the innovative idea confidential. So far, this does not sound very specific for the computing industry.

Imagine, after the launch of the product built on the innovative idea, competitors still cannot reproduce how it was done because they just do not have the needed knowledge. Therefore, competitors want to hire people who were part of the team developing this product to gain this missing knowledge. That is actually the way it happened often in the past and as it is still happening. Freeman, CD. (2002) named it employee-poaching.

**How could this scenario work without a breach of confidence?**

The weakness is in the Law of Confidence. An employee, switching employer, does have the knowledge in his head and it is not only knowledge, there is also experience. In case of Computer Software that could mean that a developer writes code to create some functionality and he does it with the same approach as he always did (and also did at his former employer). Was this a breach of confidence? The developer did not share confident information (as defined in the criteria above), the programming code itself was not copied and because the functionality consists of common used programming patterns which are not patentable (*Patent Law),* it was no theft. So probably the new employer gained what he wanted and the developer sees himself quite save of not being accused of breaching confidence. Furthermore, it seems quite hard to prove that information was shared because the employee would probably not talk about giving away the information to his new employer, and neither would they.

Heizler, L. (2007) brings it to the point: "*The purpose of a new software application, for example, is not protected even though the expression of the idea in the source code is automatically the subject of copyright.*"

Furthermore, Heizler, L. says in her article: *"An ex-employee is entitled to use the general knowledge and skills that they have acquired while working for you within a competitive business with minimal restriction."*

So companies do not really feel protected enough by the Law of Confidence. That is why it is common use to setup additional contracts for employment to gain more confidence about this special knowledge, which is not covered by the Law of Confidence. This approach is usually fulfilled by agreements, as Heizler, L (2007) recommends as well, commonly called Non-disclosure agreements.

> **Non-Disclosure Agreements (NDA) or confidentiality agreement**
>
> This type of legal contract outlines that specified confidential information or knowledge shared by parties is only allowed for a certain purpose and restricts them of using this information or knowledge outside their agreed terms.
>
> **Non-compete Agreements (NCA)**
>
> Another approach is the so-called non-compete agreement, which is used to prevent employees from moving to competitors directly. It can be used in combination to a NDA (like Microsoft did in the case described later) and set a certain time the former employee is not allowed to work at specified companies or in specified fields.

*Microsoft v Google and Lee [2005]* shows how the weaknesses in the Law of Confidence can end up:

In July 2005, Kai-Fu Lee, a former Microsoft employee was hired by Google. Lee, who was the corporate vice-president of Microsoft's Natural Interactive Services Division and opened a research lab for them in China, switched his employer from one day to the other.

Microsoft was really angry about loosing that employee to the fast growing rival Google so they filed a law case against Google and Lee. Microsoft argues that Lee signed a one-year non-competitive agreement and he should not be allowed to work at Google.

But that is not enough for Microsoft, the case got renewed attention because they now accuse Lee also for violating non-disclosure provisions and actually a Washington judge temporarily barred Lee from performing work at Google that would compete to Microsoft (which was actually about innovative computing knowledge according to search engine techniques).

The reason why they think Lee is in violation to the non-disclosure provisions is explained in the section "Inevitable Disclosure".

The case is still not closed and it seems like the ruling will become "the" example for disclosure of confidence and therefore it will have an impact on the whole industry.

**Inevitable Disclosure**

Microsoft came up with a theory named „inevitable disclosure" in their dispute Microsoft v Google and Lee (which was explained in more detail before): *When employees move to a competitor, they cannot avoid sharing or relaying to trade secrets in some circumstances.*

> Explained with an every simple example that would mean the following: A chef gained knowledge and experience over the years working at a pizza take-away. If he moves to a different employer, also a pizza take-away, he just cannot stop his knowledge and experience – he will use it!

Of course Microsoft did not use such a simple example and their argument is built on a lot more issues and it actually makes sense. People simply cannot turn off parts of their brain just because the switched employers.

In combination with the weaknesses in the Law of Confidence, this new theory would enable companies to sue former employees for working for competitors without even signing special agreements in the first place, as Meadow, R. (2005) says. Because they could argue that these people cannot avoid sharing information about innovative computing ideas for example. To spin this further, employees could not work in the same field ever again because they always could be accused of sharing information and therefore would have to stay at the same employer to stay in their profession.

**Further Evaluation**

However, it is not as easy as explained above. The following cases will evaluate the Law of Confidence and show that this is a very complex topic.

In the case *Mustad v Dosen [1963] RPC 41* it does not really matter what the case was about but the ruling assessed the following:

If a company patented their secret process already, they cannot restrain their ex-employee from revealing the information afterwards to the new employer because the information was in the public domain before. Copyright Law and Patent Law matter then, the Law of Confidence is no longer responsible for the information.

This evaluates how the combination of different laws is able to weak the Law of Confidence even more. In this case by "overruling" it.

*Mars UK Ltd v. Teknowledge Ltd*

Mars manufactored coin receiving mechanisms and also a device to validate the inserted coins as legitimate. A software on a microchip was used for this task. One part on the microchip was encrypted as well. However, a competitor (Teknowledge Ltd.) wanted to re-engineer the software and put it into their own machines which was not too difficult. They just bought the product and loaded the program code from the microchip. Then they copied it to their chips. Rebuilding the functionality of the encrypted part was more difficult.

A lawsuit was brought in copyright, which succeeded because they really just copied the software and did not rewrite it or anything and in breach of confidence, which did not succeed because the information was encrypted and that did not necessarily mean that is confidential.

The case evaluates that the Law of Copyright is able to protect companies from simple code theft and on the other hand, the case showed that the Law of Confidence is weak when it comes to technical knowledge and its protection against misappropriation by competitors.

*Cantor Fitzgerald International v Tradition (UK) Ltd*

Two City bond-brokerage houses had a dispute because an employee was setting up almost the same software at both companies. The courts decision was the same then in the case mentioned above. It was not the employees fault.

**Conclusion**

There definitely are weaknesses in the Law of Confidence in context of innovative computing ideas. A combination of several juridical possibilities is needed, like Copyright Law, Patent Law and the already mentioned Law of Confidence. But that is not enough, it comes down to the employees, which are forced into "non-disclosure" and "non-competitive" agreements and are now more often the target of lawsuits for breaching confidence.

Especially when it comes to international standards, which are by now, not as well developed as needed, companies do not feel save about their information.

As shown with the cases, legislation is very complex when it comes to the Law of Confidence and even courts are not clear about it. Especially the "Microsoft v Google" case will have an impact on how employees with important knowledge will be treat in the future.

**Journals**


- Freedman, CD. (2000) The Protection of Computer Software in Copyright and The Law of Confidence: Improper Decompilation and Employee-Poaching, OXFORD University Press, International Journal of Law and IT
- Heizler, L. (2007) Whose Idea is it anyway? Accountancy Age
- Frauenheim, E. (2005), Legal argument could hamper high-tech job-changers, CNET News
- Van Caenegm, W. (2002) Intellectual Property and Intellectual Capital, Law Papers – Bond University, Faculty of Law


**Cases**


- Microsoft v Google and Lee
- Mustad v Dosen [1963] RPC 41
- Mars UK Ltd v. Teknowledge Ltd
- Cantor Fitzgerald International v Tradition (UK) Ltd


**Legislation**


- Law of Confidence
- Copyright Law
- Patent Law


**References**


- Kalton, M. (2000) An Overview of the Law of Confidentiality & Trage Secrets http://www.kaltons.co.uk/articles/193.cfm (accessed 18th April 2008)
- UK Intellectual Property Office, Confidentiality and Confidential Disclosure Agreements (CDA) http://www.ipo.gov.uk/patent/info/cda.pdf (accessed 18th April 2008)