Contractual Protection of Trade Secrets, Goodwill, Business Connection and Confidential Information

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Abstract
Trade secrets, goodwill, business connection and confidential information are valuable assets which a business is entitled to protect against wrongful exploitation by a former employee or a competitor who hires the ex-employee. This paper discusses how a business can protect its legitimate interests in these assets and the extent to which they can be legally enforced. The discussion will focus on the Singapore position while comparing the approach used in key common law jurisdictions.

1. Introduction
Employers commonly use restraint of trade provisions or restrictive covenants to restrain their employees from carrying out their trade, business or profession or from starting or joining a competing business. Other restraints may be imposed against soliciting or poaching fellow employees or customers while newer and less direct forms of restraints are also evolving. If the sole motive is to prevent competition, the general rule is that such restraints, if there is nothing more, are prima facie void. However, in exceptional circumstances, restraints may be upheld as valid if certain legal tests are satisfied. On the one hand, freedom of contract allows parties to contract freely on terms that will govern their contractual relationship such that any judicial interference will restrict this freedom. On the other hand, restraint of trade clauses involve a restriction on the freedom of an individual to trade. Accordingly, the doctrine of restraint of trade has developed in common law jurisdictions, including Singapore, to render restrictive covenants in employment contracts prima facie void and unenforceable as being contrary to public policy. Public policy seeks to protect an employee against restrictive covenants in contracts where there is inequality of bargaining power. Moreover, it is not in the public interest to be deprived of the valuable benefit that an employee can contribute by restricting him from carrying out his lawful trade or profession. The public have an interest in an individual’s liberty to carry on his trade freely. Accordingly, the court will not uphold a restrictive covenant unless the employer can show that he has a legitimate proprietary interest to be protected over and above the mere protection of the employer from competition by way of a bare and blatant restriction of the freedom to trade.1 Thus, if the employer has a legitimate interest that merits protection, the court will apply the twin tests of reasonableness2 to ascertain whether the covenant is reasonable in the interests of both parties and in the public interest and will enforce the covenant only if it is no wider than is reasonably necessary to protect the employer’s proprietary interest. In ascertaining the reasonableness of the restraint, the court will take into consideration the following factors: (1) that it was intended to protect a legitimate proprietary interest, (2) that it was reasonable in scope, duration and geographical area, and (3) that it is not contrary to public interest. To satisfy (1), the employer must show what those legitimate interests are. They include trade secrets, business connection, confidential information and the maintenance of a stable and well-trained workforce. The court will construe the contractual wording of the restrictive covenant and the surrounding circumstances3 in determining what those interests are. With regard to (2), the court will address the following: (a) the employee’s job scope, (b) whether it is reasonable to restrain him from working in another capacity, (c) whether the duration of restraint is reasonable, (d) the geographical scope of restraint and (e) whether identical clauses exist for all employees irrespective of functions and responsibilities or whether it is a specially

1Laid down in Man Financial (S) Pte Ltd v Wong Bark Chuan David [2008] 1 SLR(R) 663; CLAAS Medical Centre Pte Ltd v Ng Boon Ching [2010] 2 SLR 386.
3 Buckman Laboratories (Asia) Pte Ltd v Lee Wei Hoong [1999] 1 SLR(R) 205 at [22].
tailored clause. To satisfy (3), the true purpose of the restrictive covenant must be ascertained. Is it to protect the employer’s legitimate interests or is it to restrain competition generally? The latter will be against public interest if it is to prevent an employee from contributing his skill and knowledge to benefit society. As Lord Atkinson observed in the leading House of Lords decision of Herbert Morris, Ltd v Saxelby: 

“The principle is this: public policy requires that every man shall be at liberty to towork for himself, and shall not be at liberty to deprive himself or the State of hislabour, skill, or talent, by any contract that he enters into.”

The general principles set out above are applicable to restrictive covenants found in employment contracts. Ultimately, whether a restrictive covenant is valid and enforceable is dependent upon the particular facts of the case.

2. Determining the validity of restrictive covenants
2.1 Defining proprietary information, job scope and geographical area of restraint
In order to protect proprietary information from being unlawfully used by an employee leaving to join a competitor, the meaning and scope of proprietary information must be carefully defined. It must not be too wide. The geographical area of restraint must not be unreasonably wide either. It should not include countries where the employer is merely seeking to establish a business presence. The employee’s job scope is also important in determining whether the restrictive covenant is wider than reasonably necessary to protect the employer’s proprietary interest. These propositions emerge from the case of Buckman Laboratories Asia Pte Ltd v Lee Wei Hoong. The plaintiff, Buckman, was a manufacturer of specialty chemicals serving four main industries: pulp and paper, leather, water treatment and coating while the defendant, Lee, worked only in the pulp and paper division of the company. Lee, a chemistry graduate aged 24, joined Buckman in May 1994 as a technical services specialist, an entry-level position. His job description was testing and analysing Buckman’s chemical products. Lee’s terms of employment required him to maintain confidentiality and prohibited him from divulging proprietary information and working for any competitor in 25 specified countries within one year from the termination of his employment. In May 1998 Lee resigned to join a major competitor. Buckman sought an injunction to restrain him from working with the competitor and from divulging confidential information. The court held that the definition of ‘proprietary information’ as “all nature, conduct, financing, products, services, markets, employees or customers of any business conducted by plaintiff and its affiliates” was too wide. Lee, as a junior employee, had limited access to proprietary information. The restrictive covenant was also not reasonable in scope, area and duration. Lee was only employed in the pulp and paper division but the restrictive covenant applied to all areas of the employer’s business. The geographical area of restraint was also far too wide. Owing to the nature of Lee’s job, he did not have contact with Buckman’s clients or associates in these countries. In some of these countries, Buckman had merely intended to establish a business presence. The court also found that identical clauses existed for all employees irrespective of function and responsibilities and the purpose of the restraint was clearly to inhibit competition rather than to protect Buckman’s legitimate interest. Moreover, Lee was relatively young and any restriction to work would impact on his future career development. The court concluded that Buckman’s case was relatively weak and that an injunction would be oppressive to Lee because of the vague and wide scope of the restraint provision.

2.2 Confidentiality, non-disclosure clauses. Defining area and time of restraint
Buckman Laboratories can be contrasted with SeaCAD Technologies Pte Ltd v Tan Siew Meng Aaron and Another. Unlike the previous case, the defendant, Aaron, was a significant member of the management of the plaintiff, SeaCAD. Holding the positions of accounts manager and general manager, he had access to the confidential information of SeaCAD, a company dealing with computer hardware, software and accessories. Aaron’s employment contract contained a confidentiality and non-
disclosure provision prohibiting him from using information acquired during his employment in any manner which might cause loss to the plaintiff or its business. There was also a non-competition clause prohibiting Aaron for a period of one year from the termination of his employment from assuming specified roles in any business which was in direct or indirect competition with SeaCAD. The geographical area of restraint was the Republic of Singapore or Malaysia. When Aaron joined the second defendant, SeaCAD’s business competitor, the plaintiff claimed that Aaron had misappropriated confidential information stored in its computer database and that both defendants had wrongfully made use of its confidential information to divert business away from SeaCAD. However, the plaintiff failed to prove these claims and they were dismissed with costs. Aaron challenged the non-competition clause as being in wrongful restraint of trade. It was undisputed that being a significant member of SeaCAD’s management, he had access to SeaCAD’s confidential information which it was justified in seeking to protect. The court found that the post-employment period of restraint of one year was not excessive, and Aaron had not argued that it was so. However, the restraint in respect of Malaysia was unjustified and excessive. The plaintiff had not asserted that it had customers in Malaysia and the court ordered this to be severed from the non-competition clause. However, Aaron had breached the competition clause when he joined the second defendant in Singapore within a year after leaving SeaCAD and was ordered to pay damages. It is to be noted that the employment contract here contained separate confidentiality and non-competition clauses. This point will be revisited in section 3 below.

2.3 Non-solicitation, radial and non-dealing clauses. Restrictive covenant of unlimited duration

Even where there might be a legitimate interest to protect, a restrictive covenant that is unlimited in duration may be invalid. In Smile Inc Dental Surgeons Pte Ltd v Lui Andrew Stewart[7] the respondent, Lui, was employed by the appellant practice as an associate dental surgeon and assigned to the clinic at Forum the Shopping Mall. In 2009 Lui incorporated another clinic at Tudor Court, a five minute walk away and resigned from the practice. The appellant sued Lui, inter alia, for breach of restrictive covenants in his contract of employment. Clause 23 (non-solicitation clause) prohibited Lui from soliciting or procuring any of the practice’s patients after he left his employment with the appellant. Clause 24 (radial clause) prevented Lui from practising within a 3 km radius distance from the practices at Suntec City Mall and Forum and from any new practices that may be set up before and during Lui’s cessation of work. Finally, clause 25 (non-dealing clause) provided that patient data and records shall remain the property of the practice and shall not be copied manually, electronically or otherwise removed from the practice. It is important to note that the restrictive covenants were unlimited in duration. The High Court held that there was no evidence of solicitation by Lui and therefore no breach of the non-solicitation clause. This finding was upheld by the Court of Appeal. The evidence that Lui’s new practice had a very similar price list as the appellant’s and that a significant number of the appellant’s patients requested for their dental records was considered insufficient to establish solicitation by the respondent. With regard to the radial clause and non-dealing clause, the Court of Appeal agreed with the Judge’s findings that these were unlimited in duration and in unreasonable restraint of trade and therefore void and unenforceable. At the same time, the appeal court recognised that a legitimate proprietary interest existed in the goodwill generated by the practice of medical practitioners (including dental practitioners) due to their special and intimate knowledge of their patients. Such an interest might be protected by reasonably worded restrictive covenants. The court noted that a restraint of trade that operates for an indefinite period of time is (in the absence of most exceptional circumstances, which were not present in this case) necessarily void and unenforceable. The restraint of trade was therefore not reasonable as between the parties and it was unnecessary for the court to decide on the reasonableness of the clause with regard to public interest.

2.4.1 Non competition clause in the interdealer brokerage industry. No geographical limitation

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Where no geographical limitation is specified in a non-compete clause, the employer has to show that it has a significant international business presence, in the context of the specific industry, that warrants such a global restriction. This emerges from the first case of its kind in Singapore involving the interdealer brokerage industry. In Phua Woon Mahina v GFI Group Pte Ltd, 9 the plaintiff, Mahina, was a senior broker with the defendant, the Singapore company of GFI, a global interdealer brokerage firm. Her contract of employment included a non-compete clause prohibiting her from working for GFI’s competitors and from soliciting any of its clients for a period of six months from the termination of her employment with GFI. The non-compete clause did not contain any geographical limitation. Mahina sought a declaration that the restraint was void and unenforceable when she wanted to join one of GFI’s major competitors before the end of the restraint period. GFI argued that it had legitimate interests in trade connection, workforce stability and confidential information and that the clause was necessary to protect its interests. With regard to trade connection, GFI contended that personal relationships between broker and client are especially important in the interdealer brokerage industry and there was a real risk of the client following the broker when she left. Furthermore, the departure of a broker might have a destabilising effect on the workforce as others might be tempted to follow suit.

With regard to confidential information, it was necessary to have a non-compete clause to protect confidential brokerage rates and other sensitive information from the defendant’s competitors. A confidentiality clause would be difficult to enforce and the risk of divulging confidential information remained. Finally, although the worldwide scope of the non-compete clause made it potentially unreasonable, modern communication makes it possible for brokerage dealings to be transacted worldwide. Therefore, GFI argued that the non-compete clause was not unreasonably wide in geographical area to protect its interests. The High Court upheld the non-compete clause and dismissed the plaintiff’s application.

It appears from this decision that the court seems to have accepted the argument that a confidentiality clause would be difficult to enforce and that a more effective way is to have a non-compete clause. The point will be revisited in section 3 below.

2.4.2 Confidentiality and non-solicitation clauses. No restraint of trade clause

Where there are no express non-competition covenants in the employment contract, the court will not grant an interim injunction to restrain the employees from joining a competitor or to prevent the prospective employer from employing them. This was the decision in another case involving a brokerage giant, Jardine Lloyd Thompson Pte Ltd v Howden Insurance Brokers (S) Pte Ltd and others.10 The plaintiff operated in 39 countries and employed more than 10,000 employees. The employment contacts included non-solicitation and confidentiality clauses but did not contain a restraint of trade clause. When seventeen of the plaintiff’s employees including four senior employees (the employee defendants) sought to join the first defendant, a competitor, the plaintiff sought interim injunctions: (a) to prevent the employee defendants from joining the first defendant for any business relating to the insurance broking business until trial; (b) to prevent the first defendant from employing the employee defendants; (c) to prevent the employee defendants from disclosing confidential information belonging to the plaintiff; and (d) to restrain the employee defendants from soliciting or inducing the plaintiff’s other employees from leaving the plaintiff. The High Court noted that professional insurance agents and brokers in the insurance industry had limited options should they wish to leave their employers and that all employees are entitled to leave their employer subject to terms of notice in their employment contracts. The court also observed that when a large group of employees of senior position leave, naturally, the employer has to recruit new staff from its competitors.

Turning to the affidavits, the High Court found insufficient evidence of misuse of confidential information or a real risk of misuse in the rival firm to warrant the imposition of an injunction.

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9 Originating Summons No 4 of 2015.
Referring to the views expressed in a Hong Kong and English judgment, the court observed that there was nothing wrong for employees to act in concert to leave for new pastures. The law looks with favour at efforts to advance themselves provided the former employees did not steal or use the secrets of their former employer. Furthermore, the employee defendants’ rights to use their skills and knowledge to seek employment elsewhere will be severely restricted by an injunction. The plaintiff had not shown that this extreme measure was warranted in the present case, especially in the absence of any express restrictive covenant in the employment agreements. The court therefore dismissed the plaintiff’s application for the first and second interim injunctions. Turning to the application for the third and fourth interim injunctions, the court found at this stage a serious question to be tried. The plaintiff’s claims could not be said to be frivolous or vexatious to such an extent that there was no prospect of succeeding at trial. Importantly, the employee defendants were already bound by their employment agreements not to commit the very acts that the plaintiff was seeking to restrain them from doing pending trial. In other words, the interim injunctions merely required the employee defendants to comply with their existing contractual duties. Accordingly, the balance of convenience clearly lay in favour of granting the interim injunctions in respect of (c) and (d).

3. Effect of including an express confidentiality clause and restrictive covenant in the same contract

3.1 The Singapore position

The effect of including such clauses in the same employment contract was dealt with by the Singapore Court of Appeal. In this case, the employer is required to show that the non-compete covenant protects a legitimate proprietary interest “over and above the protection of confidential information or trade secrets”. This could be the employer's trade connection interest. In Centre for Creative Leadership (CCL) Pte Ltd v Byrne Roger Peter and others, the plaintiff brought inter alia, an action against its former employees, Byrne and Jenkins, for breach of a non-compete covenant in their employment contracts with CCL. The plaintiff’s business included conducting research, producing publications and providing leadership development and training programmes. Jenkins was employed as CCL’s Managing Director to head its operations in Singapore and was promoted to Vice-President of CCL US’ Asia-Pacific business. Byrne was initially employed on a part-time basis and later as a full-time business development/conversion faculty. There was a non-compete clause preventing the defendants from soliciting from any of the plaintiff’s or its parent company’s clients the delivery of programmes or services competitive with those that the defendants had designed or delivered on behalf of CCL or its parent company. The sphere of prohibition was within any city in which the office of any client or potential clients of CCL or its parent company was located. The duration of the prohibition was a period of one year from the termination of employment with the plaintiff. In considering the enforceability of the non-compete covenant, the High Court reiterated that there cannot be a bare and blatant restriction of the freedom to trade. There must always be a legitimate proprietary interest, over and above the mere protection of the employer from competition and the restrictive covenant must not go further than is necessary to protect the interest concerned. The court concluded that CCL had a legitimate interest to protect in relation to the two defendants in the form of trade connection. In Jenkins’s case, he was the founding director of CCL and responsible for building awareness of the CCL brand in Singapore from its early years. He handled a significant amount of business development and would have established long-term business relationships with CCL’s clients. CCL therefore had an interest in ensuring that Jenkins did not take these relationships and trade connections to a competitor. Similarly, in Byrne’s case, he was the main contact point and managed the client’s

11Stone J in ICAP (Hong Kong) Ltd v BGC Securities (Hong Kong) LLC & ORS [2005] 3 HKC 137; Cumming-Bruce LJ in GD Searle & Co Ltd v Celtech Ltd [1982] FSR 92 at 101-102.

12Mon Financial at [92] and Stratech Systems Ltd v Nyam Chiu Shin (alias Yan Qiuixin) and others [2005] 2 SLR(R) 579 at [48]–[49].

relationship with the plaintiff. Given his role in the company, Byrne did acquire personal knowledge and influence over the plaintiff’s clients. This close contact and interaction with clients generated trade connection on the plaintiff’s behalf which was a legitimate interest that CCL was entitled to protect by means of the non-compete covenant.

While the court assumed that the non-compete clause may be used to protect an employer’s confidential information, it would make a difference where a separate clause existed to protect the plaintiff’s confidential information (confidentiality clause). The effect of having an express confidentiality clause and a non-compete clause in the same employment agreement was that the employer had to show that the non-compete covenant protected a legitimate proprietary interest “over and above the protection of confidential information or trade secrets”. In the present case, the plaintiff could establish a legitimate interest, other than confidential information, in the form of trade connection which it was entitled to protect by means of the non-compete clause.

This was followed in LekGweeNoi v Humming Flowers & Gifts Pte Ltd where the High Court felt bound by the observations of the appeal court. The plaintiff was employed for many years in the defendant company’s flowers, gifts, hampers and wreaths business and rose to become its sales manager. On learning that the plaintiff was planning to set up a similar business, the defendant warned that it would sue if she breached any of the restrictive covenants in her contract. The plaintiff thereupon sought a pre-emptive declaration that the restrictive covenants in her employment contract were void and unenforceable. Clause 13 contained a non-competition and non-solicitation restraint. Clause 3 gave wide protection for the defendant’s trade secrets and confidential information. The issue relating to these two clauses was whether the protection of trade secrets and confidential information was a sufficient legitimate interest to justify a non-competition covenant. Adopting the Court of Appeal’s observations, the High Court held that protecting trade secrets or confidential information could not be a sufficient legitimate interest to justify either the non-competition covenant or the non-solicitation covenant. Observing that the present issue was not without difficulty, the High Court granted leave to appeal partly to have this issue considered by the Court of Appeal. Since the protection of confidential information and trade secrets could not be a legitimate interest on which to found the covenants in clause 13, the court went on to consider whether the employer’s trade connection was a sufficient legitimate interest. To constitute such an interest, the employee must have personal knowledge of, and influence over, the customers of the employer. The plaintiff was a senior sales figure and had established personal relationships and rapport with the defendant’s customers. On these facts, the court found that the defendant had a legitimate interest in protecting its trade connection. This legitimate interest sufficed to support both the non-competition and the non-solicitation covenants, provided that the twin tests of reasonableness were satisfied. First, the restrictive covenant must be reasonable in the interests of the parties and second, it must be reasonable in the public interest.

Interestingly, an earlier High Court adopted a different approach. In Advantest Corporate Office (Singapore) Pte Ltd and Another v SL Link Co Ltd and Another, the parties were subject to anti-competition and confidentiality clauses in the manufacturing agreement between them. The defendants argued that the relevant clauses were unnecessarily wide and they extended beyond protecting Advantest’s business or alleged confidential information. They further alleged that Advantest had tried to use the manufacturing agreement to stifle competition and to prevent the defendants from competing with it. The court rejected these contentions. The clauses sought to protect the legitimate interests of Advantest which had invested heavily in its technology. It had also given the

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14 [2014] 3 SLR 27.
15 In Stratech Systems Ltd v Nyam Chiu Shin (alias Yan Qiu Xin) and others [2005] 2 SLR(R) 579 at [48]–[49].
16 See the classic statement of Lord Parker in Morris (Herbert) v Saxelby [1916] 1 AC 688 at 707.
17 [2005] SGHC 75.
defendants confidential information contained in the socket files and the circuit diagrams. The defendants were thereby bound by the non-competition clause which only restricted them from doing business that competed with Advantest. It was not a blanket restriction. The court therefore held that the defendants must be prevented from using Advantest’s confidential information to compete against it. The implication of this case is that the court sought to protect the confidential information by means of the non-competition restraint. It did not seek to find any “legitimate interest over and above” the confidential information which was already protected by a separate provision. Clearly, the High Court in this case was not bound by the subsequent observations of the appeal court on the present issue. Similarly, the High Court in SeaCAD Technologies Pte Ltd upheld the non-competition clause without raising the issue of the separate confidentiality clause. It did not require the employer to show a “legitimate interest over and above” the confidential information that was already separately protected. Another interesting development is the High Court's apparent acceptance of the argument in Phua Woon Mahina that a confidentiality clause would be difficult to enforce and that a more effective way is to have a non-compete clause.

3.2 The position in other common law jurisdictions
It is the preceding argument that underlies the English, Australian and Canadian courts’ rationale for not requiring an employer to show a legitimate interest “over and above the protection of confidential information or trade secrets” when considering a restrictive covenant a contract where there is in addition a separate confidentiality provision. In this regard, the Singapore approach appears to be “swimming against the tide”. Littlewoods Organisation Ltd v Harris18 (which was not considered in Stratech) was followed in two other English cases: Turner & Ors v Commonwealth & British Minerals Ltd19 and Thomas v Farr plc.20 The same reasoning appears in Australian and Canadian decisions. In these English cases, there were express clauses protecting confidentiality and trade secrets in addition to restrictive covenants against competition and solicitation. In none of these cases was it ruled that the restrictive covenants were not justified in protecting confidential information merely because there existed separate confidentiality clauses in each case. On the contrary, views were expressed in all these cases that the restrictive covenants were the best way to protect confidentiality and trade secrets. In Littlewoods, the respondent, Harris, was the executive director in charge of the appellant's mail order business. The business depended on the production of a big catalogue in which Harris played an important role, and in the course of which he acquired confidential information. Clause 8 of his service agreement contained a non-competition covenant while clauses 7 and 11 imposed on him an obligation not to divulge information.21 In his judgment,22 Lord Denning MR elucidated the principles relating to the protection of confidential information. The first point is whether the employer had anything which it was entitled to protect by a restrictive covenant. Although it could not protect against competition, it could protect its trade secrets or confidential information. That was laid down in Morris (Herbert) Ltd v Saxelby.23 Although an employer could stipulate for the protection of confidential information, experience had shown that this was not satisfactory. The reason is that it was so difficult to draw the line between information that was confidential and information that was not and it would be very difficult to prove a breach when the information was of such a character that a servant could carry it away in his head. In Lord Denning’s view, the only practicable solution was to take a covenant from the employee preventing him from working for a rival in trade which may well be held to be reasonable if limited to a short period. The critical question is: are the employers in possession of confidential information which they are entitled to protect? Browne LJ (dissenting on another point)

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21 [1977] 1 WLR 1472 at 1490..
23 [1916] 1 AC 688 at 704 per Lord Atkinson, at 709 per Lord Parker.
agreed that specific confidentiality clauses were of little value because of the difficulty of enforcing them.

In *Littlewoods*, there was confidential information sufficient to warrant a covenant being taken from the respondent that he would not go to work for a rival in business. The majority of the court found that on the true construction of the agreement, clause 8 was reasonable and enforceable. It is apparent that the English Court of Appeal found that the employer was entitled to protect its legitimate interest in the confidential information it possessed by means of a non-competition covenant. Nowhere was it suggested that the employer was not entitled to be protected merely because there existed alongside the restrictive covenant, an express confidentiality clause.

In *Turner’s* case, the plaintiff employees entered into certain covenants in their severance agreements with the defendant employers. Under the agreement, the plaintiffs would forfeit any right to payment if they acted in breach of the covenants. Clause 5.2 prevented the plaintiffs from divulging any trade secrets or confidential information while Clauses 5.5 and 5.6 contained a non-solicitation and non-competition covenant respectively. The issue on appeal was whether clause 5.6 was an unreasonable restraint of trade and unenforceable. Waller LJ, delivering the judgment of the Court of Appeal, stated that to enforce the covenant, the company would have to establish proprietary rights in the nature of trade connection or trade secrets. He emphasised that because those were the matters which they were legitimately entitled to protect, it did not follow that clause 5.6 must be unreasonable because covenants restraining the use of confidential information or the canvassing of trade connections were imposed. He explained that it has been recognised in many cases that because there may be serious difficulties in identifying precisely what is or what is not confidential information and who may or may not have been a customer during the period of an employee’s service, that a restraint against competition which is reasonable in time and space will not only be enforceable but the most satisfactory form of restraint. 24 In so stating, Waller LJ followed the reasoning of Lord Denning in *Littlewoods*.

In *Thomas v Farr plc*, Thomas's appointment as a managing director of Farr plc, a firm of insurance brokers, exposed him to confidential information. His contract of employment contained confidentiality clauses as well as non-solicitation and non-competition restrictive covenants. The trial judge considered whether the non-solicitation clause provided adequate protection for Farr plc, so removing the justification for a non-competition covenant. He concluded that it was not adequate for two reasons, namely the problems of practical application and enforcement and the fact that not all the confidential information was client-specific. On appeal, one of the contentions was that Farr plc was adequately protected by the non-solicitation and confidentiality clauses and that the non-competition clause was accordingly unreasonable. In delivering the judgment of the Court of Appeal, Toulson LJ reiterated the views of Lord Denning MR in *Littlewoods* and Waller LJ in *Turner* that it was because there may be serious difficulties in identifying precisely where to draw the line between what was and what was not confidential information that a non-competition clause may be the most satisfactory form of restraint, provided that it was reasonable in time and space. He added that the fact that the distinction may be very hard to draw may support the reasonableness of a non-competition clause. On the facts of the case, the Court of Appeal dismissed Thomas’ argument that there should be no difficulty in policing the non-solicitation and confidentiality clauses and upheld the trial judge’s decision that the non-competition clause was reasonable.

The underlying rationale in *Littlewoods* appears in the judgments of the Federal Court of Australia and the Supreme Courts of Victoria and New South Wales. In *Pearson v HRX Holdings Pty Ltd*, HRX sued Pearson, its former employee, to prevent him taking up employment with a competitor under a restraint clause in his service agreement. The agreement also contained separate non-solicitation and confidentiality provisions. The primary judge held that the restraint clause was binding on Pearson. He noted that Pearson was in a unique position because he was, for most customers, the “human face” of

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24 [2000] IRLR 114 at [18].
26 [2012] FCAFC 111.
HRX. HRX was therefore entitled to protect its legitimate business interest in preserving its customer connections. On appeal to the Federal Court of Australia, Pearson argued, *inter alia*, that the restraint was not reasonably necessary to protect any legitimate interest of HRX, given that the service agreement also contained separate non-solicitation and confidentiality provisions. Therefore, no further restraint was necessary to protect a legitimate interest of HRX such as confidentiality. The court referred to a long line of authorities that stated that an employer’s customer connection is an interest which can support a reasonable restraint of trade. 27 Such a restraint is legitimate if the employee has become, in relation to the client, the human face of the business, namely the person who represents the business to the customer. The court therefore concluded that HRX’ interest in protecting its customer connections was sufficient to justify HRX’ protection against the risk that the personal contact made by Pearson in the course of HRX’ business would follow him unbidden to a new employer. That interest went beyond HRX’ interest in confidential information which would not sufficiently be protected by the confidentiality provision of the service agreement. The non-solicitation provision would not have protected HRX from the risk that its customers would bring their business to Pearson’s new employer unknown to HRX and might not provide practical protection if HRX did not become aware of a breach. The court reiterated that it has been recognised that a confidentiality clause may not afford adequate practical protection to an employer’s interests in preserving trade secrets. Similarly, the covenant against solicitation in *Pearson* would not have been adequate to protect the proprietary interest of the employer and the covenant against competition was therefore reasonable and valid.

In *Woolworths Ltd v Olson* 28, a restraint on subsequent employment was held to be justified by the need to protect a valuable trade secret. Mason P (with whom McColl and Bryson JJA relevantly agreed) said:

A recognised method of such protection is the procurement of a restraint upon the employee given access to such information taking up employment with a competitor whom he might be willing to provide with such information. A reasonable employment restraint is easier to enforce than a breach of confidence or breach of copyright claim; it removes the temptation for the former employee to offer and for the new employer to solicit confidential information; and it provides certainty of definition as regards the area of confidential information to be protected. These interests have been judicially recognised (see *Littlewoods Organisation Ltd v Harris* [1977] 1 All ER 1472 at 1479, 1485, *Wright* at 333, *Kone Elevators* at p43, 834).

The Supreme Court of Canada has stated to similar effect in the leading case of *Elsley v J.G. Collins Insurance Agencies Limited*, 29 that the protection afforded by the non-solicitation and confidentiality provisions is unlikely to be perfect given the difficulties of proof of breach. Similar observations were made by Latham CJ in *Lindner v Murdoch’s Garage* 30 that an employer’s interest in customer connections may not be sufficiently protected by a covenant against solicitation and that a covenant against competition may be a more reasonable form of protection because a covenant against solicitation is difficult to enforce; it is difficult to show breach and difficult to frame an injunction. Furthermore, the New South Wales Supreme Court observed in *Cactus Imaging Pty Limited v Glenn Peter*, 31 that the possession of confidential information by an employee to support not only the covenant against disclosure of confidential information, but also the covenant against soliciting customers is well established by a line of authorities. 32 It was also reiterated in *Ecowize HoldingsPty

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27 *Cactus Imaging Pty Ltd v Peters* [2006] NSWSC 717; [2006] 71 NSWLR 9 at [25]; *Morris (Herbert) Ltd v Saxelby*[1916] 1 AC 688 at 709; *Dewes v Fitch* [1920] 2 Ch 159 at 181; *Coote v Sproule* (1929) 29 SR (NSW) 578 at 580, 46 WN (NSW) 180 at 181 (Harvey CJ in Eq); *Lindner v Murdoch’s Garage*(1950) 83 CLR 628 at 633–634 (Latham CJ, Webb J agreeing), (at 650) (Fullagar J), (at 654) (Kitt J); and *Koops Martin Financial Services Pty Ltd v Reeves* ([2006] NSWSC 449 at [29]–[33]).

28 [2004] NSWCA 372 at [67].


31 [2006] NSWSC 717 at [13].

4. New forms of restraints

4.1 Forfeiture-for-payment clause

The typical form of restraint prohibits an employee from working for a competitor within a certain number of years from the termination of his contract, establishing a competing business, poaching his employer’s clients or employees and from divulging trade secrets and confidential information. Whatever new form the restrictive covenant may take will not prevent the court from looking at substance rather than form. Thus, the Singapore Court of Appeal held in Mano Vikrant Singh v Cargill TSF Asia Pte Ltd[34] that deferred bonus payments subject to forfeiture if the employee worked for a competitor within two years of leaving the employment were in fact in restraint of trade. The deferred bonus had already vested in the employee as a legal entitlement prior to termination: it was based on past performance, there was no further incentive for not competing and the term “forfeited” meant that the bonus must have first vested for it to be taken away. The forfeiture for competition clause dealt with bonus payments that the employee was already entitled to and restrained him from joining a competitor by withholding what had already vested in him if he left to work for a competitor. The forfeiture provision operated in the post-termination context and came within the scope of the doctrine of restraint of trade. Accordingly, a forfeiture provision could be held valid if it satisfied the “twin tests of reasonableness” in the interest of the parties and of the public. However, this was not the case here.

4.1.2 Payment-for-loyalty clause

A forfeiture for competition provision must be distinguished from a genuine payment- for- loyalty clause. While the former is characterised by restraint, the latter contains no restraint but acts as an incentive for the employee to receive the additional payment- for- loyalty provided he continues to stay in the employment of the employer for the stipulated period. Another difference between the two clauses is that an employee leaving under the forfeiture provision might still be entitled to the payment if he did not compete. The employee leaving in breach of the payment- for-loyalty provision forfeits the payment completely, even if he chooses not to compete.

4.2 Restraint of trade –ladder/step clause or cascading restraint

Another type of restraint takes the form of a ladder/step clause or a cascading restraint clause. Such a clause provides different levels of restraint in an employment contract with regard to the type and nature of activity to be restrained (e.g. not to compete, solicit etc.), geographical areas and duration. On principle these clauses should be struck down for uncertainty. Employers should provide reasonable restraint of trade clauses rather than attempt to give maximum protection to their interests and then rely on a reading down of the restraint. The issue of step clauses has yet to arise before Singapore courts. However, Australian courts have upheld them as being valid in cases where the clause was construed as comprising separate and independent restraints such that the invalid options could be severed by the courts and the valid options left standing. Thus, a step clause was not held void for uncertainty notwithstanding that it provided for nine restraints, ranging from 15 months across Australia, down to 12 months across metropolitan Sydney. A similar decision was reached in another case where the time restraint contained ten potential time periods ranging from one to ten years and the geographical areas were the United States and Australia, Australia and New Zealand or East Coast

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[33][2006] NSWSC 1291.
[34][2012] SGCA 42.
[35] See the observations in Smile Inc Dental Surgeons Pte Ltd v Lui Andrew Stewart [2012] 1 SLR 847 [122].
The issue of step clauses remains controversial. Ultimately, each case must be decided on its own facts as to whether the clause in question is reasonable to protect the legitimate interest of the employer.

4.3 Garden leave clause

Given the differences of approach discussed above and pending consideration by the appeal court in Singapore, an alternative way of preventing an employee, particularly a senior employee, from using the employer’s proprietary interests when he joins a business competitor, is to provide for garden or gardening leave. This requires the employee who is serving out his notice period (usually long) to stay away from work and do whatever he wishes, including gardening. This is to prevent the departing employee from gaining up to date confidential or sensitive information and using this when he joins a competitor. It is also to prevent the employee from having access to clients or customers or luring other employees to leave. During this time, the employee remains on the payroll and is bound by all the terms in the employment contract, including confidentiality and post-termination restrictive covenants. The employer, however, is not obliged to provide any work. A garden leave clause should be combined with an exclusive service clause prohibiting the employee from working elsewhere during the garden leave period. The latter is to prevent an allegation of constructive dismissal by virtue of the non-provision of work. Recently, the English High Court enforced a 12 month garden leave in JM Finn & Co Ltd v Thomas Brook Holliday.39 The defendant worked with the plaintiff since 1999 and built up strong client relationships. His contract of employment contained a 12 month notice period for termination and a garden leave clause giving the plaintiff the right to put the defendant on garden leave for the duration of the notice period. In July 2013 the defendant resigned after receiving an offer from a competitor of the plaintiff and was placed on garden leave. The defendant alleged that the plaintiff was in breach of contract by failing to send him daily emails containing information from the financial press, which he argued were important tools of his trade. He sought to start work with his new employer in August 2013. The plaintiff brought an injunction to enforce the 12 months notice period and the garden leave provision and to prevent the defendant from starting work with the new employer. The High Court granted the injunction for the whole 12 month notice period as keeping the defendant on garden leave for that period was no more than was reasonably necessary to protect the plaintiff’s legitimate business interests in maintaining its relationship with clients with whom the defendant had dealt previously. The court took into consideration the fact that the defendant took legal advice before entering into the new employment contract and that he would continue to receive his salary and benefits and would suffer no financial loss while on garden leave. Furthermore, his skills would not atrophy as he would still maintain his market knowledge and it would not lead to reputational damage as garden leave is a common practice.

As the court in JM Finn confirmed, the doctrine of restraint of trade applies equally to restrictive covenants and garden leave provisions. This means that the employer must show he has a legitimate business interest to protect (e.g. business connection) and the injunction goes no further than is necessary to protect that interest. Although each case is fact-specific, the present case illustrates the extent of protection provided by a garden leave provision. A garden leave clause must be carefully drafted and the length of protection should be no longer than is necessary to protect the employer’s interest.

5. Conclusion

The crucial question in each case is whether the restrictive covenant is aimed solely against competition or whether it is reasonably required to protect the legitimate proprietary interests of the employer. In the latter situation, it is clear from the authorities that employers are entitled to protect their legitimate interests by means of a proper restraint on future employment. Insofar as Singapore


39 [2013] EWHC 3450 (Q8).
law departs from the weight of English, Australian and Canadian authorities, a review by the Singapore appeal court is timely. The existence of separate clauses protecting trade secrets, confidential information or trade connection should not be a reason for requiring the employer to prove, for the purpose of enforcing the covenant on non-competition, that it has legitimate proprietary interests “over and above” those interests stipulated in the separate clauses. Singapore law should “swim with the tide” to recognise that these are interests which can support a non-competition restraint of trade clause and which may not be adequately protected by the confidentiality or non-solicitation clause alone. As judicially recognised elsewhere, a covenant against competition may be a more practical and effective form of protection provided that it is reasonable in time and space and is not against public interest. In this regard, Lord Denning MR’s judicial remarks bear repetition. He stated that experience has shown that it is unsatisfactory simply to have a covenant against disclosing confidential information, because it is difficult to draw the line and difficult to prove so that the only practicable solution is to take a covenant from the employee by which he or she undertakes not to work for a trade rival. Bearing in mind these words and other judicial observations and acceptance of this reasoning inPhuaWoonMahina, a Singapore review is awaited.

Moving forward, in view of the globalisation of business, employers may justify imposing worldwide restraints and redefining geographical areas so as to protect their legitimate proprietary interests. Technological advancements and changes in business practices may also call for the duration of restraint to be re-defined. Ultimately, employers should bear in mind that however complex and sophisticated restraint of trade clauses may be crafted, courts will always look at the substance rather than the form of restraint.

40 See America li Asia Pte Ltd v KeeFoongMeng, Laurel & Others [2012] SGDC 197 where a one-year restraint on an employee in the electronic component industry was held unreasonable owing to the rather short shelf-life of electronic components.