

Minimizing The Risks Of Hiring Employees From A Competitor

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All companies seek to maximize talent and competitive advantage. One way to do this is to hire employees who are likely to have skills and knowledge that will be strategically useful for the company, but recruiting or hiring a competitor's employees can create unintended consequences for the hiring employer. Careful conduct and due diligence can minimize these risks. We address below the most common risks in the United States, China and the European Union and steps to take to minimize those risks.

Restrictive Covenants and Invention Assignment Agreements

An employee of a competitor may have signed an agreement with her current employer (or perhaps a prior employer or other entity) that restricts her right to engage in certain conduct during and/or after termination of the current employment. These agreements are most often labeled "noncompetition" or "nonsolicitation" agreements, but restrictive covenants are sometimes found in "confidentiality" or "nondisclosure" agreements, stock option agreements, operating agreements, codes of conduct, or other documents. Employees typically sign these agreements when they first join their employer and they sometimes do not receive or retain a copy of the signed agreements, so they may not appreciate or recall years later that they had agreed to post-employment restrictions.

Under U.S. law, some restrictive covenants are not enforceable, but many are enforceable, or at least enforceable to a limited extent. Enforceability typically depends on a number of factors, and varies from jurisdiction to jurisdiction. Thus, the hiring company should not assume, as many U.S. employees do, that the covenants can be ignored or will be forgotten by the former employer.

People's Republic of China law provides general rules with respect to noncompetition agreements (for example, they should be reasonable in scope, not exceed 24 months in duration and provide for compensation payable on a monthly basis during the noncompetition period). PRC law does not provide any specific guidance on customer nonsolicitation agreements, but those agreements may be enforced as general contractual obligations.



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The EU has no uniform law across the 28 member states regarding noncompete agreements. In the main, noncompetes can be much more difficult to enforce in civil law jurisdictions such as France, Germany and Austria, than they are in common law jurisdictions such as the U.K. As a result, covenants must be carefully considered in light of the law of the member state that governs the employment relationship.

Invention assignment agreements, in which a worker assigns to her employer the right to own and exploit inventions and other work she conceived in the course of her employment, often are found within confidentiality agreements. Many of these agreements are enforceable under U.S. law, but some states place limits on the employer's right to claim its employees' inventions. Even in the absence of an agreement, the employer may own the invention/work as a matter of common law. Employees, however, often mistakenly believe that all of their ideas and work product belong to them, rather than to their employer.

In China, the employer may claim rights in its employees' "service inventions;" i.e., inventions that are created in the execution of "employment tasks" or that primarily use the employer's materials or technology. PRC judicial interpretations have defined employment tasks to include not only tasks assigned and undertaken during the course of employment but also, in some instances, technology that the employee develops within one year after termination of employment.

There is no harmonization of laws across the EU regarding ownership of employee works or inventions. Nevertheless, similarities exist between the national legislations concerning ownership of employees' inventions created during the course of employment, which commonly belong to the employer. A properly drafted invention assignment agreement can help to ensure that the party seeking ownership of the relevant intellectual property rights will obtain what it bargained for.

A company that does not discover a new employee's restrictive covenant, invention agreement or similar obligation before hiring the employee may later find that it cannot use the new hire as planned, yet nonetheless be stuck with a commitment to retain and pay the employee. And a company that knowingly interferes with an agreement may be liable to the former employer for interference with that contract, or under related legal theories.

The best way an employer can minimize these risks is to, first, conduct due diligence to determine, during the recruitment process, whether such restrictive covenants or invention agreements/restrictions exist. The hiring employer should ask the candidate whether she is subject to any restrictions, should request a copy of any relevant agreements, and should study the scope of the restrictions. The employer should ask specifically about the types of documents described above that may contain restrictions, and should consider contacting the candidate's current employer to determine whether there are any such restrictions. Based on the applicable restrictions, the employer may decide to offer a different position, or no job at all.

Second, the employer should require the candidate to certify in writing, as an express condition of employment, that she is not subject to any restriction that would interfere with the performance of her duties at the new employer. A false certification may justify terminating the employment relationship. A certification also can help the new employer prove that it did not intentionally interfere with the restriction.

Third, the hiring employer's own invention agreement should require the employee to identify any of her prior inventions (without disclosing confidential information of the prior employer). The hiring employer can thus better evaluate whether claimed inventions may belong to the employee, to the

prior employer or to a third party.

Misuse of Confidential Information or Trade Secrets

A new employee, or even an applicant, may think he can enhance his status by disclosing or using confidential information or trade secrets of a prior employer. Any such disclosure or misuse exposes the hiring employer to civil liability for misappropriation of trade secrets or misuse of confidential information. Misappropriation of trade secrets also can expose the hiring employer to criminal liability.

One way to minimize this risk is to make clear to the candidate that the company will not solicit or accept the confidential information of others, and that he may not disclose the information or use it in his new job. These statements should be made to the candidate during the company's first substantive contact with him. The employment offer should contain the same instruction; the most cautious instruction to a new employee is that he should take nothing from his job that his current employer has not expressly authorized him to take.

The hiring employer should make compliance with these instructions an express condition of employment, and should reinforce them in writing during new employee orientation. These instructions also should be part of the company's code of conduct, frequent ethics training and ethics enforcement.

The hiring employer also should ensure that it reviews and understands any confidentiality agreement that may be binding on the employee. It is not uncommon that such agreements define "confidential information" quite broadly. While overbroad restrictions may well be unenforceable, it is important to understand what the prior employer believes is confidential.

Hiring A Group of Employees

Employers are sometimes approached by, or on behalf of, a group of employees who may wish to move en masse to a competitor. Such transfers may create risk for the hiring employer because, under U.S. law, many employees have a fiduciary duty of loyalty not to solicit their co-workers to leave their current employer (this obligation may arise regardless whether the employee has signed an agreement not to solicit co-workers). A hiring employer that asks a candidate to solicit co-workers to join the new employer, or who accepts the fruits of such solicitations, could be liable for conspiring to breach that duty, unfair competition or for other civil liability.

Across the EU, nonsolicitation clauses are commonly included in employment contracts which are usually signed at the start of the employment relationship. Although there are local variations, these clauses are widely enforceable.

The best practice for minimizing the related risk is to not use one applicant to find or solicit co-workers. If the hiring employer is interested in hiring a group of employees, then the hiring employer should contact the members of the group individually and directly, and conduct any employment discussions directly with each candidate, rather than through co-workers.

Discussions With the Competitor

In addition to the due diligence described above, an employer may wish to seek input from the current employer regarding the employee's performance, before making a final offer of employment. However, those discussions should steer clear of potential legal land mines. Discussions with a competitor that suggest an agreement between the companies not to hire individuals or groups, or to fix compensation,

may create an illegal restraint of trade. Other topics to avoid include those that discover whether the employee is a member of a class protected in the applicable jurisdictions (e.g., questions regarding disability, pregnancy, etc.).

“Jumping the Gun”

Once an employee accepts an offer, she may be tempted to engage immediately in tasks for the new employer, before she terminates her current employment. This is risky.

In the U.S., employees generally have a right to hold two jobs simultaneously (“moonlight”), unless the employment contract or a binding employer policy prohibits the second job. Although PRC law does not prohibit moonlighting, an employer may terminate a moonlighting employee who, upon receiving notice that the moonlighting is severely impacting her work, fails to cure the impact.

EU law does not specifically prohibit moonlighting. That said, EU employers in a number of member states frequently include clauses in their employment contracts prohibiting employees from engaging in any other employment, or work that may adversely affect their current role, during the course of their employment. Breach of such a clause would generally be grounds to terminate the employment.

The hiring employer should beware that an employer’s written restrictive covenant or code of conduct might lawfully prohibit moonlighting. But, even if there is no such written prohibition, an employee who moonlights for a competitor may breach her duty of loyalty to the current employer. For example, if, before termination, the employee solicits the current employer’s customers to move business to the future employer, the employee may be liable for breach of the duty of loyalty to the current employer. If the new employer encourages or benefits from that conduct, the employer may be equally liable for the breach. Thus, an employment offer should instruct the candidate not to engage in any activity for the new company until her current employment is terminated.

Protecting Your Company from Competitors

Finally, while this paper focuses on hiring new employees from competitors, companies should also take steps to ensure that they are protected from unfair competition by former employees. This may include: requiring employees to sign enforceable confidentiality, nonsolicitation and other restrictive covenant agreements; requiring employees to sign enforceable invention assignment agreements; ensuring that employees who sign these agreements understand their obligations (for example, defining clearly what information the company considers proprietary); reminding employees of these obligations before they depart; and, security procedures that prevent misappropriation of the company’s proprietary data.

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