

## Leveraging Business / Trade Secrets for Competitive Advantage: Examples and Case Studies

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All enterprises irrespective of their size possess value added business related information or knowledge that needs to be protected as these help to create and sustain competitive positions in the market place. Successful businesses of today build on effective networking of internal resources with external ones by way of optimized outsourcing via contractors, consultants, shared infrastructure etc.. A lot of vital information is therefore delocalised and becomes vulnerable to being misappropriated. Advances in technology have made copying and transmission of information easy. Moreover a mobile workforce becomes a very facile medium for the transmission of organizational knowledge. Patents, design registrations, trademarks and copyright protect some of the enterprise knowledge base. However there is substantial information and knowledge that is either not protected or are not protectable by the normal tools of IPR. Such information or know how of business importance ought to be protected as trade secrets in an organization. A common misconception is that only items of technology, processes etc can be protected as trade secrets. It may be appreciated that any information of actual or potential business value i.e. commercial value, to the owner of the information that is not generally known or readily ascertainable by the public could be considered as a trade secret. .

### **Corporate Information Security Policy ..... a must**

Clear corporate information policies backed by appropriate employment contracts and enforcements have now become business imperatives. To enjoy the protection under trade secrets, the enterprise is expected to follow some formal due diligence procedures within the organization and therefore has made a reasonable effort to keep secret. Therefore it is important that organizations should implement integrated processes and systems for the protection, use and management of trade secrets as part of their business and intellectual property management strategy.

It may be noted that trade secret has a fairly limited protection in that the trade secret holder is protected

- from the unauthorized disclosure and use of his trade secret by others

- from another person obtaining the trade secret by improper means. such as theft, bribery, misrepresentation, breach or induced breach of a duty to maintain secrecy, or espionage by electronic or other means

Trade secrets impose liability not only on those who wrongfully misappropriate trade secrets by breach of confidence, but also in certain conditions, on others who might benefit from the breach.

One must recognize the distinction between ownership of trade secret and ownership of physical object or chattel embodying the same; i.e. the transfer of the physical object embodying the trade secret does not under all circumstances give the transferee the right to discover the trade secret from such physical embodiment and thereafter exploit it for his own benefit. It is advisable to incorporate confidential relationship between the parties by putting restrictions in the lease agreement against disassembling the chattel. Without such reservations an proprietary rights are relinquished

Loss of trade secrets may be considered as a means to protect against unfair competition and laws in various countries have dealt with trade secrets and its enforcement from such an angle. In other countries trade secrets are dealt with as part of contract law.

## Possible Trade Secrets

- **Business Related**

Business strategies and plans, selective models of operations, marketing plans; clients lists, financial information, personnel records; work flow processes / schedules

- **Technical Related**

- R&D strategies and plans, Manuals, Designs, Formulae and know-how for producing products;
- Manufacturing or repair processes, techniques and raw materials and specifications;
  - Drawings, Models, Prototypes blueprints and maps; Algorithms and processes that are implemented in computer programs, and the programs themselves; Architectural plans, Data compilations, proprietary databases and instructional methods; Document tracking processes.

It is important for an organization to have an information security policy with a well defined information/document classification and stamping system so that people are made aware of which information is confidential and which information can be shared or distributed in a restrictive or free manner. Structured and systemic documentation (electronic and otherwise) of all organizational information, segregation of confidential and non-confidential information, access control systems both for electronically and physically stored information, disaster recovery plans, encryption of files, anti virus hygiene of the electronic storage systems, review of employment contracts, employee awareness programmes on information security policy at appropriate frequency, signing of non-disclosure agreements incorporating tenable liability clauses with third parties involved with the business, reporting of trade secret breach incidents, information security audits, declassification of information when it is no longer a trade secret, policing of the trade secrets, timely enforcement of the information security policy when any breach occurs, conducting and documenting employee joining and exit interviews, etc., are key aspects of a healthy organizational due diligence process. To lead credible evidence in courts it is essential to maintain a record of the measures taken by the organization on information security.

This is becoming crucial in times of mergers, acquisitions, aggressive “head-hunting” in ensuring proper transmission of intellectual property rights.

A trade secret becomes ineffective the moment the subject matter of the trade secret becomes publicly known fair means; e.g. someone works independently and finds out the information from his own investigation or reverse engineers a product or process or derives the subject matter based on publicly known information and knowledge.

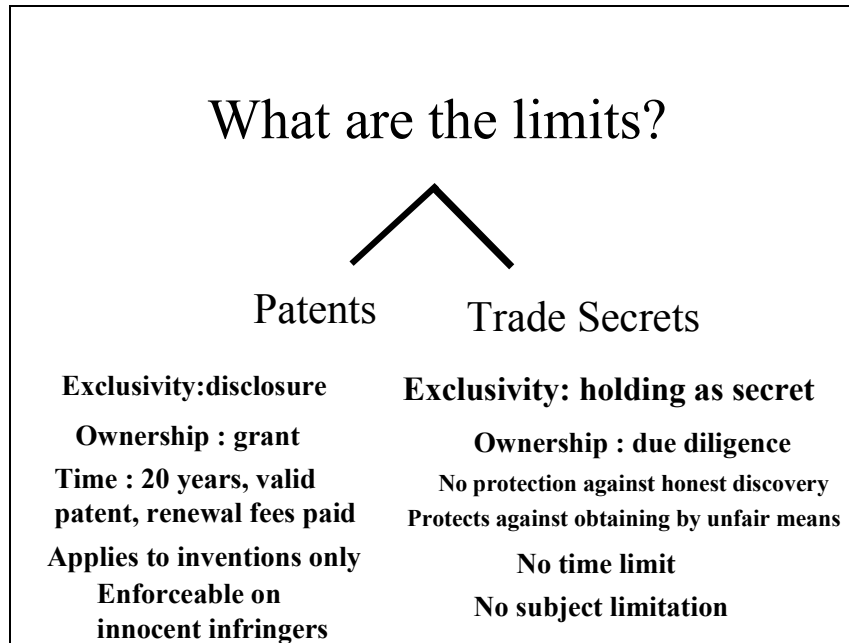
### **Trade secret as a business strategy**

Decision on what, how, when and for how long to some keep information as a trade secret is a strategic one and depends on the specific item with respect to the involved business. One needs to take a business call on a case-by-case basis and would depend on various parameters such as the extent information is known outside and inside the company, value of information to company and competitors, company efforts in developing the information, ease or difficulty in properly acquiring, duplicating, or reverse engineering the information or technical know-how, life cycle of the product or service.

Technical improvements that is easily copyable are better protected by a design registration, patent / utility model and/or in some cases by copyright if possible as it give exclusivity to the IPR holder for the term of his intellectual property.

If one considers the information related to the product or process is not easily decoded or reverse engineered or there is a likelihood that no one would easily

and independently come up with the same innovation, one may consider keeping it as a trade secret to raise the entry barrier of the competitor.



Life cycle of a product or service is an important parameter for consideration to protect something as a trade secret. Best examples of these are various software and methods that are used in computer related invention. Most people prefer to protect their algorithms etc as trade secrets rather than protecting them by patents. However if the software has several applications or is likely to have an extended useful life, then a patent gives a better protection. Various techniques in biotechnology, agriculture, tissue culture, recipes for foods, perfumes, are popularly protected by trade secrets

Moreover certain aspects of an innovation can be protected by patents/design registrations and parts of the technology that need not be disclosed in a patent specification can be retained a know-how and a trade secret. Such a strategy becomes commercially important during the licensing of the technology when the technology transfer package is segregated into the patents / designs licensing fees and the know-how transfer fees.

Compromise on corporate trade secrets could lead to diverse revenue losses in the form of licensing revenue, lost sale, rapid depreciation in the value of the intellectual asset affected. This could result in increased legal costs, loss of competitive edge, loss of market share, embarrassment / personnel issues, increased R&D costs. This is one of the reasons why corporate houses are so zealously guarding their trade secrets and enforcing them in courts for any comprises.

Assignment Agreement linked to IPR in addition to Confidentiality Agreements ensures a commitment from the employees to protect the companies intellectual property which includes all creative aspects of the employees' work, innovations, company sensitive information such as clients lists, financial information, price lists etc., copyrights, trade secrets, trademarks.

## **Case Studies**

### Motorola vs. Integrated Circuit Systems (ICS)

Motorola on July 1999, filed a lawsuit against ICS and several managers who left Motorola while working in its Timing Solutions Operation, to set up a new ICS operation. Motorola's complaint was that ICS did this to gain access to Motorola's business and technical trade secrets and that the managers who left, had breached fiduciary duties and misappropriated trade secrets. Though ICS and the former Motorola managers denied the allegations, a settlement was reached on 27<sup>th</sup> March 2000, where Motorola agreed to:

- dismiss the lawsuit in exchange for the defendants' agreement to make an undisclosed monetary payment,
- refrain from using or disclosing Motorola confidential information, and for limited time periods to refrain from using certain design technologies,
- restrict further hiring and solicitation of Motorola employees and
- grant Motorola certain rights to use certain ICS intellectual property. [<http://www.motorola.com>]

### Walmart vs. Amazon.com

Walmart had filed a suit in a US Court against Amazon.com claiming that Amazon was attracting executives and employees of Walmart, together with their consultants, to access the trade secrets of Walmart. The case was settled in 1999. Under the terms of the settlement, Amazon agreed to reassign some of its employees where their knowledge of Walmart's operations would not be used. Limits were also placed on the projects to which the former Walmart workers are involved in Amazon's operations.

### ColorSpan vs. Sentinel Imaging

This dealt with a case on infringement of Trade Secrets, in which ColorSpan was awarded \$2.2 million in damages in a 1997 judgement. ColorSpan alleged that Sentinel had stolen part of its market of consumables for its wide-format inkjet printers by hiring two former ColorSpan employees who imparted trade secrets and customer information.

Reference : Intellectual Property rights.... Unleashing the Knowledge Economy by P. Ganguli; Tata McGraw Hill 2001, New Delhi, India. ISBN 0-07-463860-2