THE IMPLIED OBLIGATION OF AN EMPLOYEE

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"This right of the employé to use his abilities, developed through his experiences, to the utmost of his capacity, . . . and his obligation to preserve to the full the property rights of his employer are shaded into each other by lines so fine that it is doubtful whether anything but a nice sense of honor can keep them distinguished," said Judge Dickinson.[1] Does he mean that a court, passing upon these twilight questions, may need a moral light to guide, in addition to that of legal science? Nothing should be clearer to the judicial understanding than a legal abstraction, nor less difficult for the intelligent layman than a specific point of personal honor. The American courts are in confusion, apparently, as to the ethical application of the rules to facts.

There are certain plain rules, applicable to these situations. The employee's right to lawful freedom is not to be covenanted away for his employer's benefit,[2] nor a debtor's for the benefit of a creditor.[3] On the other hand, the employer's rights will be protected from a servant's, or ex-servant's, breach of that confidence which was incidental to the employment relation.[4] Every covenant running to an employer, restricting the post-relation freedom of an employee, is prima facie unlawful, but the presumption disappears when the covenant is shown to be reasonably necessary for the employer's protection.[5]

The express contract of the vendor of a going business, not to engage in the same line as that of the business which he has sold, will not be enforced. Anti-competition agreements *per se* are invalid. The vendor's express or implied contract not to

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[1] DuPont de Nemours Powder Co. v. Masland, 216 Fed. 271, 272 (E. D. Pa. 1914).

[2] Herbert Morris, Ltd. v. Saxelby, [1916] 1 A. C. 688.

[3] Horwood v. Millar's Timber & Trading Co., [1917] 1 K. B. 305.

[4] Robb v. Green, [1895] 2 Q. B. 1.

[5] Attwood v. Lamont, [1920] 3 K. B. 571.

compete for the custom of the concern whose good will he has sold will be enforced only so far and so long as may be reasonably necessary for the protection of the property purchased; there may be no derogation from a grant, but enforcement will go no further than protection of a grant, because beyond that line is protected freedom.

An employee's express contract not to engage hereafter in the same line of business as that of his present employer will not be enforced, for it is an obligation in restraint of free trade. However, as an English writer recently expressed it, such a contract will be enforced if it meets three conditions:

> "1. There must be in connexion with the particular employment such trade secrets as require protection;
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> "2. The risk of disclosure of such secrets must be so real as to necessitate for the protection of the employer a covenant in restraint of trade; and
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> "3. Assuming that both of the last two conditions are satisfied, the restraint must be not wider than is necessary for the protection of the employer." [6]

The laissez-faire attitude of the courts towards a provision for liquidated damages is not taken towards an express agreement between a master and servant, as to what is reasonably necessary for the master's post-relation protection. Upon finding the basic fact of confidential relations, they will raise a presumption favorable to the express agreement, but not beyond what may be ample protection to the employer's confidential rights.[7]

The problems of implied or express contractual protection of a going business from the competition of the vendor were clarified by Lord Macnaghten in the *Nordenfeldt* case.[8] The same objective legal certainty, however, does not prevail in cases involving the implied obligations of post-service employees. "Em-

[6] Farwell, *Covenants in Restraint of Trade as between Employer and Employee*, (1928) 44 L. Q. REV. 66, 67.

[7] Edgecomb v. Edmondston, 257 Mass. 12, 153 N. E. 99 (1926).

[8] [1893] 1 Ch. 630, [1894] A. C. 535; SANDERSON, RESTRAINT OF TRADE (1926); Carpenter, *Validity of Contracts Not to Compete*, (1928) 76 U. OF PA. L. REV. 244; note (1928) 41 HARV. L. REV. 782.

ployee" is not here used as meaning exclusively a clerk, servant or manager. It may include an independent contractor, or a person with whom the plaintiff has had no relations at all.[9]

What rights, according to the decisions, has an employer against the harmful activities of a former employee, in the absence of an express covenant? What business or intangible property interests may not be impaired with impunity by one who is, or has been, rightfully dealing with that business or interest? Perhaps essentially the same question arises in this form: What confidential relations will turn the court's presumption in favor of a covenant against freedom, if a covenant had been made?

It is unquestioned that an ex-employee may compete generally for the customers of his employer who form part of the general or open trade market, with whose needs he became acquainted through his employment.[10] He may compete in spite of his covenant not to compete, and he is privileged to exploit for his own advantage or a new employer's advantage, to the old employer's detriment, the knowledge, acquired in the old employer's service, of the rules, ways and customs of the market, the methods of obtaining business, the sources of supply and forces of demand, and the factors affecting the general trade or industry. "Equity has no power to compel a man who changes employers to wipe clean the slate of his memory."[11] He is free to dispose of his own personal skill, experience, intuition, wits, reputation—his subjective qualities—even though these have been inspired, created or enhanced through the opportunities, training and example afforded by the old master. Against such competition, however injurious or ethically crooked it may be, the employer is helpless.[12]

The recent English case of *Hepworth Mfg. Co. v. Ryott*[13] furnishes an excellent example of this. Wernham Ryott was a

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[9] Schavoir v. American Re-Bonded Leather Co., 104 Conn. 472, 133 Atl. 582 (1926); Aronson v. Orlov, 228 Mass. 1, 116 N. E. 951 (1917); Prince Albert v. Strange, 1 M. & Gord. 25 (1849).

[10] Boosing v. Dorman, 148 App. Div. 824, 133 N. Y. Supp. 910 (1912).

[11] Peerless Pattern Co. v. Pictorial Review Co., 147 App. Div. 715, 717, 132 N. Y. Supp. 37, 39 (1911).

[12] Herbert Morris, Ltd. v. Saxelby, *supra* note 2, at 714.

[13] [1920] 1 Ch. 1.

good Kinema actor. His employer spent large sums advertising him as Stewart Rome. After he had acquired a wide popularity under that name, half of which was due to his own merits and half to the merits of the employer's advertising, he broke his employment contract and engaged himself, as Stewart Rome, to a competing company. It was held that the first employer was not protected by the express covenant.

In an analogous case,[14] decided in Massachusetts, this rule was similarly applied. Two young men, unskilled in service, obtained employment with a dealer in cooking utensils. At his expense, in his training school, they learned about salesmanship, dietetics, hygienics, and home economics. Having thus acquired a valuable knowledge of cooking-utensil salesmanship, for which they gave no return, they broke their contract to continue in his service, and entered the employ of a competitor. The employer-educator was helpless; his contract proved worthless.

In each of the two last-mentioned cases there was a covenant, supported by consideration which at least was substantial, and a breach, causing loss to the convenantee. There was personal good faith on the part of the covenantees, and, according to some, defective ethics on the part of the covenantors. The employers suffered a loss because the position in which they found themselves was not the result of violated confidence. The employees, to their own advantage, had broken contracts but had not exposed themselves to restraint or damages, because they had betrayed no trust. Each prevailed because his covenant had put him in the position *adscriptus glebae*, like the villein of medieval times, and modern English and American law will enforce a contract between a master and servant, limiting the ex-servant's industrial activities, only when it is necessary to prevent a possible betrayal of trust. In the earlier case of *Peabody v. Norfolk*,[15] it was not clear whether the court was enforcing the implied duty or the express contract.

Parsons raises the query whether the doctrine that an employee's express contract not to compete is void may not be a

[14] Club Aluminum Co. v. Young, 160 N. E. 804 (Mass. 1928).
[15] 98 Mass. 452 (1868).

vestige of the obsolete guild and apprenticeship laws, under which a man was doomed for life to one trade.[16]

What is such a betrayal of trust by an employee as establishes a violation of a legal duty? The answer seems to be that it is the betrayal of a trade or business secret.

There is no disputing the right of an employer, regardless of covenant, to injunctive protection from a servant's taking or using copies of his books, documents, plans, formulas, customers' lists, or from his exploiting of the knowledge of secret unpatented processes, formulas, or arts, uncopyrighted compilations, memoranda or collections of special information, which are the employer's own acquisitions, whether the servant acquired this data legitimately or surreptitiously.[17] All of these are protected properties. Equity distinctly recognizes business, trade, or proprietary secrets as property, and a violation of such secrets as a property injury; and equity limits the fiduciary obligation which arises out of the relation of the master and servant to the duty not to impart or exploit secrets.[18] Has the word "secrets," in this connection, acquired a technical or equitable significance? Is there an adequate definition of a trade secret? Some American courts have adopted the following definition as complete and perfect:

> "A trade secret is a plan or process, tool, mechanism, or compound, known only to its owner and those of his employees to whom it is necessary to confide it. It is a property right which equity, in the exercise of its power to prevent a breach of trust, will protect. It differs from a patent in that as soon as the secret is discovered, either by an examination of the product or in any other honest way, the discoverer has the full right to use it. A process commonly known in the trade is not a trade secret and will not be protected by injunction. . . ." [19]

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[16] PARSONS, CONTRACTS (9th ed. 1904) 911.

[17] Peabody v. Norfolk, *supra* note 15; Aronson v. Orlov, *supra* note 9; Yovatt v. Winyard, 1 Jac. & Walk. 394 (Eng. 1820); Tipping v. Clarke, 2 Hare 383 (Eng. 1843).

[18] See American Stay Co. v. Delaney, 211 Mass. 229, 233, 97 N. E. 911, 913 (1912).

[19] 22 Cyc. 842; *cf.* 32 C. J. 156. For an extensive review of the authorities, see Progress Laundry Co. v. Hamilton, 208 Ky. 348, 270 S. W. 834 (1925).

The courts[20] that adhere narrowly to this definition will not enjoin the driver of an established route from competing for the customers on that route, for his own or a new employer's benefit. They hold that an employee is entitled to the benefit of the friendships that he is able to make through his employment, and that he must not be relegated to new friendships, of which in turn he would be deprived by a termination of his subsequent employment, with the result that, after a series of such terminations, all the world, or all his world, would be closed to him. These courts also hold that the names of customers on a specific route or in a given territory cannot be trade secrets, because a prospective employer might follow the driver or drummer over his route, take down the names or locations of the persons with whom the employee dealt, and then hire him away from his present employer. Customers who can be remembered are not trade secrets, though written lists of customers may be. An insurance company's agent, who sold policies to persons of his acquaintance, has been permitted to persuade them to cancel their policies after his agency terminated.[21]

These authorities hold that the personal good will which the salesman or driver acquires through his dealings with his employer's customers may be transferred to another employer, because this good will is a thing that cannot be taken from him. It is part of his personality. Yet, strange as it may seem, these courts indicate that, if the employee had made an express contract to refrain from such competition, they would have enforced it. In *Fulton v. Grand Laundry Co.*,[22] it is said that very few cases are to be found which bear directly on either side of the proposition, and, in *Progress Laundry Co. v. Hamilton*,[23] the court said that it was following the main current of authority.

A number of courts and a strong body of opinion seem to

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[20] Georgia, Kansas, Kentucky, Maryland, and Minnesota.

[21] Stein v. National Life Ass'n, 105 Ga. 821, 32 S. E. 615 (1899); *cf.* Garst v. Scott, 114 Kan. 676, 220 Pac. 277 (1923); Progress Laundry Co. v. Hamilton, *supra* note 19; Fulton Grand Laundry Co. v. Johnson, 140 Md. 359, 117 Atl. 753 (1922); Boone v. Krieg, 156 Minn. 83, 194 N. W. 92 (1923).

[22] *Supra* note 21, at 361, 117 Atl. at 754.

[23] *Supra* note 19, at 353, 270 S. W. at 836.

be opposed to this construction of trade secrets, or confidential information. There is an apparent inconsistency in denying relief because the employer, though possessing property rights, has no contract, and at the same time enforcing a contract not to compete because it is reasonably necessary to protect the same rights. The property right either exists or it does not. If it does, it should be protected. If it does not, a covenant has no valid basis, according to the historical theory. If it is not right to restrain a driver, who has gained the personal good will of his employer's customers, from taking them to another employer, because his popularity with them is part of himself, it would be wrong to enforce a covenant not to capitalize that personality for another employer.[24]

The Kentucky court[25] might have mentioned states, other than those it did mention,[26] as constituting a minority which apparently takes a wider view of confidential knowledge than that limited to the narrow definition of trade secrets which it adopts —Massachusetts, England, Washington, and the United States Supreme Court, for example. Massachusetts agrees with California and Illinois that if an employee takes a lease of the premises used by his employer he must hold it for the employer's benefit, if, through his employment, he learned that it was valuable to the employer.[27] Manifestly, however, an observing outsider could have deduced the fact of value, and such a secret does not fall within the narrower definition.[28] New York steadfastly holds that a driver on a delivery route will be enjoined from using his knowledge of, and influence with, his former employer's customers on that route, for the benefit of a new employer. Judge Dickinson's "nice sense of honor" comes to mind when reading

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[24] Reuter's Tel. Co. v. Byron, 43 L. J. Ch. 661 (1874), discussed by Kekewich, J., in Merryweather v. Moore, [1892] 2 Ch. 518.

[25] Progress Laundry Co. v. Hamilton, *supra* note 19.

[26] California, Illinois, and New York.

[27] Essex Trust Co. v. Enwright, 214 Mass. 507, 102 N. E. 441 (1913); *cf.* Gower v. Andrew, 59 Cal. 119 (1881); Davis v. Hamlin, 108 Ill. 39 (1883).

[28] *Supra* note 19.

the New York decisions.[29] The employee, in the *Light* case,[30] carried the customers' identities in his head. They were his friends. Nevertheless the New York court held in effect that their good will in trade was not his property but that of his employer, regardless of the fact that their names might have been discovered by an outsider. An express contract was not necessary to protect the employer's rights.[31]

In *Eastman Kodak Co. v. Reichenbach,*[32] a secret process was compounded by an employee who had adopted the direct suggestion of an article published in a trade magazine. He left the employer and undertook to use the process in a competing business of his own. An injunction was issued. *Semble,* that a solicitor of trade, employed to increase the business, may not carry it off when leaving.

The Massachusetts courts seem to have reasoned in a manner similar to that of the courts of New York and California. Thus, in a recent case it was said: "It must be recognized that in employing any one as a driver and collector for a laundry the employer introduces the person to a public capable of furnishing laundry business to which but for such introduction he might never be known." [33]

The United States Supreme Court also looks beyond the mere word. Mr. Justice Holmes dropped an illuminating remark in *Dupont Powder Co. v. Masland,*[34] the same case in which Judge Dickinson made the comment with which this article commences:

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[29] People's, etc., Co. v. Light, 171 App. Div. 671, 157 N. Y. Supp. 15 (1916); Witkop & Holmes Co. v. Boyce, 61 Misc. 126, 112 N. Y. Supp. 874 (1908); Witkop v. A. & P. Tea Co., 69 Misc. 90, 124 N. Y. Supp. 956 (1910).

[30] *Supra* note 29.

[31] *Cf.* Boylston Coal Co. v. Rautenbush, 237 Ill. App. 550 (1925); Conviser v. Brownstone, 209 App. Div. 584, 205 N. Y. Supp. 82 (1924).

[32] 79 Hun 183, 29 N. Y. Supp. 1143 (1894).

[33] B. & S. Laundry Co. v. O'Reilly, 253 Mass. 94, 98, 148 N. E. 373 (1925); *cf.* Cornish v. Dickey, 172 Cal. 120, 155 Pac. 629 (1916); New Method Laundry Co. v. MacCann, 174 Cal. 26, 161 Pac. 990 (1916); Davis v. Miller, 104 Wash. 444, 177 Pac. 323 (1918).

[34] 244 U. S. 100, 102, 37 Sup. Ct. 575, 576 (1917).

> "The word property as applied to trade-marks and trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith. . . . the starting point . . . is not property or due process of law, but that the defendant stood in confidential relations with the plaintiffs. . . . "

The English courts are wary of employees' contracts, though they protect the relation. Kekewich, J., in 1892, said that confidence postulates an implied contract; that where the court is satisfied of the existence of a confidential relation, then it at once infers or implies the contract arising from that confidential relation; that the confidence is that the servant shall not use, except for the purpose of service, the *opportunities* of gaining information which that service gives him.[35]

In the light of these cases, the question arises whether the word "secret" does not mislead courts to adopt an inadequate test? In *Lamb v. Evans,*[36] the advertising plates obtained from the plaintiff's customers by the defendants (who were then the plaintiff's agents), and used in newspaper advertisements, were not secrets at all; anyone could have reproduced them. The engines made by the plaintiff, in *Merryweather v. Moore,*[37] might have been inspected after they had been sold, and their dimensions obtained by any competent person. The process of making the plaintiff's composition, in the *Schavoir* case,[38] might have been discovered by a chemical analysis. The essential question is: Has there been an abuse of confidence? If there has been, it is not necessary that the secret be a business secret.

It was said by Lord Chancellor Cottenham that Lord Eldon expressed the opinion, respecting an engraving of George the Third, made during his illness, that, "If one of the late king's physicians had kept a diary of what he heard and saw, this Court would not, in the king's lifetime, have permitted him to print and

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[35] Merryweather v. Moore, [1892] 2 Ch. 518.
[36] [1893] 1 Ch. 218.
[37] *Supra* note 35.
[38] *Supra* note 9.

publish it." [39] *Tuck v. Priester,*[40] involved the copying of pictures, apparently in a public gallery, by a person in Germany, employed for the purpose by the owner in England. The defendant completed the plaintiff's order and then made copies for himself, which he undertook to sell in England. He was enjoined. In *Caird v. Sime,*[41] lectures to a class were protected from publication by one of the class.

It is not a requisite that the plaintiff and the defendant should have had any prior relations. Queen Victoria and Prince Albert indulged the fancy to practice etching. They gave their etched plates to a printer at Windsor, for the purpose of printing off some impressions for the Queen and Prince. The printer employed a journeyman, who took away some of the impressions and sold them, and by various mesne transfers they came to the defendants who were proposing to publish them as etchings made by the Queen and the Prince Consort. The defendants were enjoined upon the motion of the Prince.[42]

In the modern leading case of *Dewes v. Fitch,*[43] and *Fitch v. Dewes,*[44] the employer was an English solicitor in good practice. He employed the defendant, first as junior clerk, then as articled clerk, and, when the defendant was admitted to the roll of solicitors, as managing clerk. After thirteen years in this confidential service, the defendant, a capable practitioner, left and set up in business for himself in an adjoining town. He was thoroughly familiar with the affairs of many of his employer's clients, with whom, through the employment, he had acquired an intimate acquaintance. These clients preferred him. Lord Birkenhead said that the employer had the right to claim, for his protection, that the business was his, and should continue to be his, and that the defendant should not be in a position to use the intimacies and the knowledge which he acquired in the course of his employment in order to create a practice of his own and, by

[39] Prince Albert v. Strange, *supra* note 9, at 46.
[40] 19 Q. B. D. 629 (1887).
[41] 12 A. C. 326 (1887).
[42] Prince Albert v. Strange, *supra* note 9.
[43] [1920] 2 Ch. 159.
[44] [1921] 2 A. C. 158.

so doing, undermine the business and connections of the plaintiff.[45]

The employer in the last-mentioned case was protected by a covenant against competition, and this was enforced. Yet it would seem that essentially the same relief would have been granted him upon the implied obligation. These professional secrets were not the employer's; they were his clients' secrets, but a finding that the defendant's familiarity with their affairs was a material factor in persuading them to transfer their business to him, would or should have moved the court to issue a decree against his dealing with any former client of the employer, as soon as he threatened to do so. An express agreement not to divulge the secrets of a business is not necessary, if such agreement can fairly be implied from the circumstances of the case and the relations of the parties.[46] It is somewhat difficult to say whether the court in the last case proceeded on the implied contract or the confidence. Chancery always had an original and independent jurisdiction to prevent what the court considered and treated as a wrong.[47]

It would seem that if a contract cannot be implied, an express contract will not be enforced. And, while, according to *General Billposting Co. v. Atkinson*,[48] an express covenant will not be enforced if it has been broken by the covenantee, it is submitted that the fundamental obligation of confidence should not be destroyed by the employer's breach of an express collateral or supplementary contractual obligation, but no cases have been found on this last proposition.

At any rate, the employer armed with a covenant is decidedly better off than he would be without one. If an employee, in violation of his covenant, puts himself in a position where it is to his interest to betray the confidence reposed in him, the employer need not wait for, nor prove, an actual betrayal.[49]

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[45] *Ibid.* at 165.
[46] Stevens & Co. v. Stiles, 29 R. I. 399, 71 Atl. 802 (1909).
[47] Merryweather v. Moore, *supra* note 35.
[48] [1909] A. C. 118.
[49] Walker Coal & Ice Co. v. Westerman, 160 N. E. 801 (Mass. 1928).