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Solicitation or "staying connected"? How to protect your client base in an online space

Peter Wright and Dean Schubert

The ownership of social media accounts and corresponding client contact lists in the employment context remains a hotly contested topic. Despite the emergence of the use of social media in the workplace, there remains an absence of a settled body of law from which to seek judicial guidance. This article discusses some of the key issues addressed by courts in Australia, the United Kingdom and the United States, and seeks to provide employers with some practical tips to help safeguard against potential loss and damage of client relationships, confidential information and intellectual property, in the digital age.

LINKEDIN – WHO OWNS YOUR CLIENT CONNECTIONS?

In a case before the New South Wales Supreme Court, *Naiman Clarke Pty Ltd v Tuccia*,[1] recruitment company Naiman Clarke alleged that a former employee had breached confidentiality and restraint of trade clauses in her employment contract, in relation to LinkedIn contacts created during the course of employment.

In particular, Naiman Clarke alleged that the former employee had used names of candidates, contained in a spreadsheet it had created, who had had previous dealings with Naiman Clarke to establish “connections” on her LinkedIn account. From December 2010 to 10 February 2011, the former employee's LinkedIn network had increased from around 150 to over 500.

Naiman Clarke claimed the former employee used the information taken from its spreadsheet in her subsequent employment, in order to profit both the rival recruitment company and herself in the process.

Whilst this case had the potential to provide judicial guidance as to the treatment of ownership of LinkedIn contacts acquired by employees during the course of their employment (including whether such information forms part of an employer's confidential information protectable at law by restraint of trade), the matter has subsequently been resolved out of court.

[1] *Naiman Clarke Pty Ltd v Tuccia* [2012] NSWSC 314.

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RESTRAINT OF TRADE CLAUSES – WHAT ARE THEY AND WHAT DO THEY PROTECT?

Restraint of trade clauses in an employment contract usually cover matters such as protection of an employer's confidential information, non-solicitation of the employer's clientele and/or workforce, and limiting the ability of a former employee from working for, or setting up a rival business, in competition with their former employer.

CURRENT POSITION IN NEW SOUTH WALES

At common law, the starting point is that a restraint of trade clause is invalid unless it is reasonable as between the parties and not contrary to public policy.

In assessing whether a restraint of trade clause is reasonable as between the parties, a court will generally consider whether it is only as wide as is necessary to protect the legitimate business interests of the employer, with regard to the unique circumstances of each case. If the clause seeks to unreasonably restrict the employee in their ability to trade their talents, skills and knowledge and the restrictions provide no legitimate protection to the employer, it will generally be considered by a court to be invalid as against public policy.

At common law, a court is bound to consider all possible breaches within the terms of a restraint of trade clause (after any permissible severance), and determine whether public policy was infringed by restraining an employee for committing all such breaches. In New South Wales (NSW), this common law position is altered by the *Restraints of Trade Act 1976* (NSW) (the Act), which requires the attention of the courts to focus on the actual or apprehended breach by the employee, rather than on all imaginary or potential breaches.

To illustrate, the Act permits NSW courts to approach restraint of trade cases by first determining whether the alleged breach does, or will, infringe the terms of the restraint in the employment contract properly construed. Whether the clause is an unreasonable restraint is irrelevant to this inquiry. Secondly, the court determines whether the restraint in its application to that breach is against public policy. Thirdly, if it is not, then in its application to the alleged infringing conduct, the restraint is valid unless the court makes an order under s 4(3) of the Act.

As such, a court in NSW (unlike the common law position in other States and Territories), is given the capacity to enforce a reasonable restraint of trade falling within the expressed restraint although the expressed restraint is too widely stated. In effect, the restraint of trade clause can be “saved” by a court “reading down” the actual words of a restraint clause within its terms to modify its operation to the extent that it would not be contrary to public policy.

In the recent New South Wales Supreme Court decision in *Charltons CJC Pty Ltd v Fitzgerald*,[2] a Sydney-based accountancy firm brought an action to restrain three former employees attempting to solicit clients from it, in breach of their post-employment contractual obligations, which had been drafted by Brown Wright Stein lawyers.

Ultimately, the court awarded $303,335 in damages to Charltons for loss suffered as a result of the former employees' breaches, plus the costs of the proceedings, by first having confirmed that the personal connection an employee cultivates with their clients is a legitimate business interest that can be protected by an adequately drafted restraint of trade clause in an employment contract, and secondly, having "read down" the width of the non-solicitation clause in the employment contract by limiting the definition of "client" from any client who had been a client of Charltons throughout the former employees' employment with the firm, to those clients with whom each former employee had direct dealings during the last 12 months of their employment.

However, this case did not deal with the solicitation of clients online, through the use of professional networking sites like LinkedIn, and social media more broadly.

CLIENT CONNECTIONS IN AN ONLINE SPACE: LINKEDIN – "INVITE", "ACCEPT", OR STAY "CONNECTED" – WHO OWNS YOUR CLIENT CONNECTIONS?

There is no doubt that social media is transforming the way people do business. LinkedIn in particular is a business-oriented social media platform that businesses are embracing for its professional networking and marketing opportunities.

Increasingly, employers are encouraging their employees to "connect" with existing and prospective clients either via their own individually held LinkedIn accounts or the employer's LinkedIn accounts, in order to build relationships and the employer's business profile. However, the benefits of a broad social media presence can also generate a number of risks to the employer, in circumstances where the law remains unsettled.

Before the inception of online professional networking sites such as LinkedIn, the position in Australia with regard to the ownership of company contact lists and client databases was relatively straightforward: materials created during the course of employment were generally owned by the employer and remained the employer's confidential information. However, the ownership of social media accounts and the corresponding client contact lists (that is, the "connections"), in the employment context, remains a hotly contested topic with little judicial guidance. Similar to

[2] *Charltons CJC Pty Ltd v Fitzgerald* [2013] NSWSC 350.

Australia, the United Kingdom (UK) and United States (US) position also remains unsettled.

UNITED KINGDOM AND UNITED STATES: RECENT EXAMPLES

LinkedIn's terms and conditions say that ownership of the account is personal to the account holder. Despite these terms, many companies attempt to claim ownership of accounts that are opened by employees during the course of their employment. However, in the recent US decision of *Eagle v Morgan*,[3] the court found that an employee's personal LinkedIn account belonged to her as per the terms of the LinkedIn "User Agreement", even in circumstances where the employee had registered a personal LinkedIn account created with the employer's email account, on the employer's time and at the employer's direction. Although this case suggests that a LinkedIn account is owned by the employee (provided it is in the employee's own name), the additional question is whether a LinkedIn contact list (which would be stored on external servers) created in the course of employment, constitutes confidential information owned by the employer, despite the account being owned by the employee.

Two recent UK High Court decisions in *Whitmar Publications Ltd v Gamage*[4] and *Hays Specialist Recruitment (Holdings) Ltd v Mark Ions*,[5] suggest that even in circumstances where an employee owns the LinkedIn account, the ownership of contact lists stored on that LinkedIn account and created by an employee in the course of employment, belong to the employer.

The factual circumstances in *Whitmar* and *Hays* concerned ex-employees using contacts on LinkedIn, created by them during their employment, to set up rival businesses in competition with their former employer. In *Hays,* the account in question was the employee's personal LinkedIn account. However, in *Whitmar*, the employee had managed four LinkedIn groups on behalf of the employer, at the direction of the employer. Unfortunately, the judgment in *Whitmar* does not disclose whether the LinkedIn account was the employee's personal account or an account registered in the employer's name.

Although a definitive ruling has not been made in either case on the issue of ownership and/or use of LinkedIn contacts post-employment, the court in *Hays* at least found there had been an arguable basis for suggesting that the former employee may have breached the contractual restraint of trade clause in his employment contract. In *Whitmar,* the court remained silent as to whether the

[3] *Eagle v Morgan* (unreported, Case No 11-4303, 2012 WL 4739436, EDPa, 4 October 2012).
[4] *Whitmar Publications Ltd v Gamage* [2013] EWHC 1881 (Ch).
[5] *Hays Specialist Recruitment (Holdings) Ltd v Mark Ions* [2008] EWHC 745 (Ch).

contact details on LinkedIn constituted confidential information of the employer; rather, it relied on other forms of confidential information before the court to grant injunctive relief. The employees in the *Whitmar* case had not been subject to an express contractual restraint of trade clause defining confidential information to include “LinkedIn contacts”. Although not dealt with in the decision, it is worth querying whether this had influenced the court declining to make a finding in relation to the LinkedIn aspects of the employer's claim in *Whitmar.*

CONSEQUENCES FOR EMPLOYERS

The risk that a court will find an ex-employee (subject only to certain narrow common law limitations as regards to confidential information) otherwise free to set up or participate in a rival business, solicit former clients, poach employees and/or use the suppliers of their former employer is increased, absent an express, reasonable restraint of trade clause written into the employment contract, which also deals with the use of client contact lists created on a LinkedIn account (or other form of social media).

Often, employers' customer lists are considered confidential information in the eyes of an employer, but when tested in court, such information may be found to have not satisfied a number of complex common law tests used by courts, particularly in the absence of an express restraint of trade clause drafted in the employment contract. Although injunctions have been issued by courts preventing the use of client information that has been committed to memory and carried away in an ex-employee's head, it is not clear cut, particularly in circumstances where the ex-employee has operated in a particular industry for sometime and had undertaken a client-facing role.

Further, the courts will assess the reasonableness of any restraint by taking into account only those circumstances that existed at the time the parties entered into the restraint of trade. For example, in relation to confidential information, the protectable interest in the information must have existed when the restraint of trade clause was entered into, so the restraint has validity on its formation, not just when the employer seeks to enforce it.

It is therefore important to draft a restraint of trade clause that will continue to be viewed by the courts as reasonable, particularly in light of the commercial reality that a business' client base can expand or contract over the course of an employee's employment and the communication medium in which a business deals with its client base can also change (from post, email to online cloud-based servers, like LinkedIn).

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PRACTICAL TIPS AND TRICKS TO MINIMISE RISK IN DIGITAL AGE

Despite the absence of a settled body of law with respect to the emerging use of social media in the workplace and the rights associated with contacts made on these professional networking sites, there are a number of points from the discussed cases that businesses should definitely consider to help safeguard against potential loss and damage, in terms of client relationships, confidential information and intellectual property.

Employers should, for example:

- Insert clear rules in employment contracts and workplace policies, governing post-employment conduct, particularly solicitation of clients. For example, employers could consider including a reference to contact lists made in the course of employment and, in particular, those which are stored on LinkedIn;
- Define “solicitation” to include “updating employment details on LinkedIn”;
- Agree on a list of clients which were the employee's contacts prior to beginning employment and require an employee to delete contacts established during their employment, and not re-connect with those contacts for a certain period of time;
- Address ownership of active social media groups operating in the workplace and passwords;
- Consider setting up a company-operated and registered group account rather than allowing the use of personal LinkedIn accounts, and conduct follow-up audits on account activity; and
- At the time of termination of employment, remind departing employees of the respective clause(s) in their employment contract and any workplace policy that deals with restraint of trade, and obtain the relevant usernames and passwords of the employer-registered account.

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About Brown Wright Stein

Brown Wright Stein is a medium-sized commercial law firm based in Sydney. We provide legal advice in the following areas:

- Tax
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- Franchising
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- Employment
- Estate Planning
- Elder Law
- Intellectual Property
- Corporate Governance
- Insolvency & Bankruptcy

Our lawyers specialise in working with business owners and their business advisors, such as accountants, financial consultants, property consultants and IT consultants – what we see as our clients' 'business family'. We develop long-term relationships, which give our lawyers a deep understanding of our clients' business and personal needs. Over the years, we have gained a unique insight into the nature of operating owner-managed businesses and the outcome is that we provide practical commercial solutions to business issues.

At Brown Wright Stein, we believe in excellence in everything we do for our clients. It's this commitment that enables us to develop creative, innovative solutions that lead to positive outcomes.