Employee Competition: Rights and Remedies
Richard Leiper QC

Agreement

1. In ***Pickwell v Pro Cam CP Ltd*** [2016] IRLR 761 the court considered the approach to cases where there is no express agreement to a term. This usually arises in the context of a variation.

2. Of course, it is for the employer to demonstrate that a covenant has been agreed. In the absence of express consent, then it will need to demonstrate that the consent is to be implied. However, this is not as easy as was once thought. The judge accepted that the relevant legal principles included that:

    a. To establish implied consent, there must be an "unequivocal act implying acceptance" on the part of the employee: see Jacobs LJ in ***Khatri v Rabobank*** [2010] IRLR 715;

    b. If that unequivocal act is said to be the employee's continued working, this involves asking whether that work is <u>only</u> referable to his having accepted the new terms imposed by the employer: see ***Solectron v Roper*** [2004] IRLR 4 at ¶ 30 (approved in ***Khatri***);

    c. The employer must show that the term now relied upon and said to have been accepted was only available under the contract in question and that the invocation of that contractual right was unequivocal in terms, such as to be referable only to the acceptance of that contact: ***FW Farnsworth v Lacy*** [2013] IRLR 198.

3. Even though these tests are tough, on the facts the court accepted that the employees' continued working was only referable to their having accepted the new terms, those terms having been offered at the conclusion of their probationary periods and accepting the employer's evidence that it would have terminated their employment had they not accepted the new, more comprehensive terms.

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4. Note that in this case the former employees had taken the initiative and were the claimants, leaving the former employer to counterclaim for declaratory and injunctive relief to enforce the covenants.

Consideration

5. The recent case of ***Decorus Ltd v Penfold*** [2016] EWHC 1421 (QB) has highlighted the question of the adequacy of consideration for restrictive covenants. It is, of course, a trite proposition that where a restrictive covenant is sought to be introduced or amended in the course of an employment relationship, then this change to the contractual terms must be supported by consideration.

6. In this case, there was no doubt that the employee had agreed to the varied covenant: he had signed his acceptance, in circumstances in which the employer gave evidence that he would have been dismissed had he refused to sign the new terms.

7. Paradoxically, whilst the change appeared to be beneficial to the individual, it was almost certainly detrimental since the covenants had changed from being unenforceable to being enforceable. The new covenants were more nuanced: for example, the non-solicitation and non-compete clauses had been reduced in duration from 9 to 6 months.

8. The judge accepted that on the facts there was valid consideration for the change. That was so even though the new pay had been paid even before the employee had signed the new terms. Indeed, there was a gap of around 3 weeks between the two events.

9. The judge pointed to the fact that the new contract was always expressed to be part of a three phase process: (i) the introduction of an appraisal process; (ii) an increase in salary from April, even though pay reviews historically had been in January; (iii) the signature of new terms (where he would have been dismissed had he not done so) (¶ 72).

10. The opposite conclusion was reached in ***Reuse Collections Ltd v Sendall*** [2015] IRLR 226, in light of the fact that the salary increase had been introduced about three weeks before the terms had been signed. However, in that case:

    a. There was no satisfactory evidence that the salary increase was specific to Mr Sendall; and

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b. There was no evidence that linked the continued employment of Mr Sendall to his signature of the terms.

11. These cases demonstrate the wisdom of:

    a. Ensuring that any pay increase is in fact implemented only once revised terms have been signed by both parties; and

    b. Determining the necessity for the new terms, to such an extent that an employee who fails to sign them may be dismissed (fairly, for some other substantial reason).

The enforceability of covenants

12. A useful reminder of some basic principles on enforceability arises from the case of ***Bartholomews Agri Food Ltd v Thornton*** [2016] EWHC 648 (QB) [2016] IRLR 432.

13. One covenant which the former employer sought to enforce was in the following terms:

> "Employees shall not, for a period of six months immediately following the termination of their employment be engaged on work, supplying goods or services of a similar nature which compete with the Company to the Company's customers, with a trade competitor within the Company's trading area (which is West and East Sussex, Kent, Hampshire, Wiltshire and Dorset) or on their [own] account without prior approval from the Company. In this unlikely event, the employee's full benefits will be paid during this period."

14. The court refused to enforce the covenant:

    a. Mr Thornton had no experience and no customer contacts at the time the covenant was made. The covenant was therefore "manifestly inappropriate" (¶ 22).

    b. The covenant applied to all customers of Bartholomews and its associated companies, whether or not Mr Thornton had done work for them, or even knew of them (¶ 23).

    c. Mr Thornton primarily dealt with customers in West Sussex; he had no clients in Wiltshire, Dorset or Kent; and so the area was unjustifiably broad (¶ 25).

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15. The judge rejected the relevance of the fact that an employee would be paid during the period of the covenant: citing ***JA Mont (UK) Ltd v Mills*** [1993] IRLR 172 he concluded that “it is contrary to public policy in effect to permit an employer to purchase a restraint” (¶ 26) (though cf ***Turner v Commonwealth & British Minerals Ltd*** [2000] IRLR 114 ¶ 19: payment is a legitimate factor to be taken into account; but the restraint must still be justified).

16. Another case dealing with enforceability, in a rather different context, is ***Rush Hair Ltd v Gibson-Forbes*** [2017] IRLR 48. The case concerned a share purchase agreement concerning the sale by Ms Gibson-Forbes to Rush Hair of the shares in two salons.

17. The SPA contained a two year non-compete clause. It also prevented Ms Gibson-Forbes from employing certain employees from her former salons.

18. As to the first, the court enforced the two year restraint, quoting from and relying upon the judgment of Burton J in ***Cavendish Square Holdings BV v Makdessi*** [2013] 1 All ER (Comm) 787 ¶ 15.

19. As to the second, Ms Gibson-Forbes argued that she was not in breach: the employment contracts with the individual hairdressers had been entered into by another salon and that salon was not itself subject to the covenants. She, she argued, had not “employed” the individuals. However, the court accepted that, at least in relation to some of the recruitment steps, the salon had acted through Ms Gibson-Forbes and this was sufficient to constitute a breach of the clause. The term preventing her from “employing” the hairdressers was to be construed as meaning employing either on her own part or as agent for another. This was both a commercially sensible approach and reflected the facts, as known to the parties at the time of agreeing the covenant, that Ms Gibson-Forbes operated through a number of salons and that each was set up as a free-standing limited company.

20. The general principles applicable to post-termination restraints were very recently considered by Foskett J in ***Tradition Financial Services Ltd v Gamberoni*** [2017] EWHC 768 (QB). It is fair to say that the judge took a tolerant view of the restraints, upholding a 12 month non-competition restriction against a relatively junior inter-dealer broker (appointed in 2013 as a trainee broker).

21. In relation to non-competition covenants, the judge accepted that as a matter of principle such covenants are necessary in two situations:

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a. Where non-solicitation and non-dealing covenants and confidential information restrictions are difficult to police; and

b. Where there are material disputes as to what information is confidential (¶ 96).

22. The judge also rejected a submission that the clause was too wide because it prevented the defendant from acting in a back office role. He was "wholly unable to see why the prohibition is too wide: it is needed to protect C's confidential information, particularly information concerning its client base, whilst the employee with knowledge of that information is removed from the picture" (¶ 132).

23. In considering his discretion to grant relief, the judge reaffirmed the correct approach: whilst the court must approach the issue of discretion with an open mind even having decided that the restraints are valid and enforceable, "good ground must be shown for permitting such contractual obligations to be set to one side" (¶ 144).

Fiduciary duties

24. There can be little doubt of the value of establishing that an individual owed fiduciary duties, rather than simply duties as an employee. The duties are more onerous; the remedies are far wider.

25. The leading case on when those duties may fall on an employee is ***University of Nottingham v Fishel*** [2000] ICR 1462 (Elias J, approved by the Court of Appeal in ***Helmet Integrated Systems Ltd v Tunnard*** [2007] IRLR 126 ¶ 36-37).

26. The principles from that case were applied in ***Milanese v Leyton Orient Football Club Ltd*** [2016] IRLR 601.

27. Mr Milanese was the director of football at Leyton Orient. He was responsible for handling player transfers and contract negotiations. Wide-ranging allegations of misconduct were made against Mr Milanese, one (but only one) of which was established (concerning the appointment of a young academy player). His claim for wrongful dismissal therefore failed.

28. However, the club also argued that Mr Milanese had been a fiduciary because he was trusted to spend the club's money on transfers. He successfully argued that he was not: the

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totality of his obligations were encompassed by the service agreement and there were no specific contractual obligations undertaken within the employment relationship which were capable of making the claimant a fiduciary.

29. The judge also rejected the notion that Mr Milanese had any sort of reporting duty. Moreover, she considered that it could not conceivably extend to reporting his own wrongdoing in relation to the academy player (not least given that his duty in relation to transfers did not extend to non-league players).

30. Whilst not closely reasoned (see ¶ 136-141) this may be because the judge considered that the counterclaim based on the existence of a fiduciary duty was “tenuous”. Of course, that conclusion was in light of the findings that the wrongful conduct was limited in scope. Perhaps a different view would have been taken had the full range of the alleged misconduct been found.

Springboard relief: unlawful team moves

31. ***Dorma UK Ltd v Bateman*** [2015] EWHC 4142 (QB) [2016] IRLR 616 concerned the move of 4 employees from Dorma to its competitor, Arrow Industrial Ltd.

32. One was a branch manager, and as such subject to a 6 month non-compete and 9 month non-solicit, non-poach, non-deal clauses. The other three employees from the branch handled sales but were not subject to PTRs. They all tendered their resignation on the same day. When asked about their future intentions, three lied and one was evasive. In fact, they all started at Arrow on the same day, at the end of their notice.

33. The manager returned his mobile and laptop, but these had been wiped. Before being placed on garden leave, the other employees were seen, variously, heavy photocopying and requesting to see confidential materials. Nevertheless, they denied that this was an unlawful team move.

34. The judge rejected this at the interim stage. He concluded that the individual circumstances “plainly give rise to a strong inference that this was an unlawful team move … They amount to a power circumstantial case” (¶ 42). He found particularly striking the coincidence in timing of their registering an interest with Arrow, being offered employment by Arrow, and resigning from Dorma.

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35. He also considered that the advantage that the individuals had obtained from their conduct was continuing and would continue beyond a speedy trial. He accepted that the correct approach was as found by Simler J in ***Devere Holding Company Ltd v Belgravia Wealth Management KFT*** [2014] EWHC 3189 (QB), namely that the claimant must show that the defendants have gained an unfair competitive advantage over the claimant and that that advantage still exists and will continue to have effect unless the relief sought is granted; the duration of any injunction should not extend beyond the period for which the defendants' illegitimate advantage may be expected to continue, since the purpose of such injunctions is not to punish for past breaches. Thus, even where a claimant raises an arguable breach in relation to unlawfulness, the court must further be satisfied that the relief sought does no more than proportionally negate the springboard advantage improperly gained in consequence.

36. The judge accepted that such an advantage continued, based upon the claimant's evidence that, had Arrow acted lawfully, it would have taken 12 months for Arrow to build up its business to the level it had (¶ 50). On that basis he accepted that it was appropriate to grant springboard relief against the three more junior individuals (who were not subject to PTRs) so as to reflect the manager's PTRs.

37. It is also worth noting that:

    a. The court concluded that there was a serious issue to be tried as to whether confidential information had been appropriated and so an order was granted restraining the misuse of such information.

    b. Dorma had sought confirmation by affidavit of the use made of their confidential information. The judge accepted that such a request was 'the right side of the line' (in contrast to ***Aon Ltd v JLT Reinsurance Brokers Ltd*** [2009] EWHC 3448 (QB) [2010] IRLR 600 (¶ 26) the question being whether the information either assisted in giving effect to the injunctive relief or assisted in undoing the harm that had been unlawfully done) but accepted that the individuals had provided sufficient information in their witness statements and, if that were wrong, they could be subject to proceedings for contempt.

    c. Finally, Arrow had "very properly" indicated that it would give an undertaking that it would not cause, induce, encourage or permit the individuals to act in breach of any orders made against them; the court accepted that offer (¶ 89).

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Delay

38. A well-known factor in considering whether to grant injunctive relief is whether the applicant has delayed in seeking relief. It is oft-cited but rarely determinative. However, in ***Legends Live Ltd v Harrison*** [2017] IRLR 59 the court refused relief on this ground.

39. The claimant ran a show in Blackpool – 'Trevor Chance's Legends'. The defendant was a Michael Jackson tribute performer.

40. A rival show, 'Kings and Queens of Rock' ran in 2015 featuring tributes to Elvis Presley, Freddie Mercury and Michael Jackson. However, for the 2016 season they needed a new Michael Jackson performer. The defendant approached that show and offered to take the part.

41. The covenant in the contract between the claimant and the defendant stated this:

> "The artiste also agrees to undertake a covenant not to compete on any other look/soundalike shows in Blackpool for a period of 12 months from the final date of their current contract."

42. The claimant wrote to the defendant demanding that he agree by 23 March that he would comply with the covenant. The new show was due to start on 25 March. The defendant declined to agree.

43. The proceedings were not issued for a further 2 months.

44. Edis J cited *Spry on Equitable Remedies* for the following proposition:

> "The defence of laches arises if two conditions are satisfied: first, there must be an unreasonable delay on the part of the plaintiff in the commencement or prosecution of proceedings, and secondly, in view of the nature and consequences of that delay, it must be unjust in all the circumstances to grant the specific relief that is in question, whether absolutely or on appropriate terms or conditions. It is also relevant to take into account the position of any third parties who may have been affected by the delay."

45. There was no explanation offered by the claimant for the delay. As a result, the judge was prepared to infer that the injunction was being sought not merely to protect the claimant's

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genuine business interests but as a weapon to cause avoidable damage, loss and disruption to the rival.

a. It is not the length of the delay that matters (2 months being a short time in terms of the defence of laches), but the circumstances in which it occurred and, to a significant extent, the reason why it occurred;

b. An injunction may be refused if the damage to others was avoidable by sensible and proper steps. In the present case, that damage included many other performers, technicians, front of house staff and the like who were all entirely blameless.

46. Whilst the defendant had taken a risk by not complying with the covenant, the inaction following the expiry of the ultimatum was taken as indicating that the threat to sue had been bluster and so he and his employer had spent time and money in the new show.

47. As a result, the grant of an injunction was not equitable and the relief was refused.

Wrotham Park damages

48. Last year, I referred to the Court of Appeal judgment in ***Morris-Garner v One Step (Support) Ltd*** [2017] QB 1. The case is useful in summarising the jurisprudence to date on the subject (*Wrotham Park, AG v Blake, Experience Hendrix, Devenish*, *WWF v WWF, BGC v Rees*) before developing it still further.

49. The case concerned non-competition and non-solicitation covenants in a business sale agreement. At trial, the judge accepted that the individual covenantors had gone on to solicit seven entities that fell within the contractual definition of significant clients or customers.

50. The claimants contended that damages would be very difficult to prove and would not, on that account, be an adequate remedy for the breaches which the judge had found. They therefore sought either an account of the individuals' profits from their wrongdoings or *Wrotham Park* damages, being the amount which would notionally have been agreed between the parties, acting reasonably, as the price for releasing the individuals from the restrictions contained in the sale agreement. These are a form of compensatory damages, although not of the ordinary type.

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51. A number of the earlier authorities had suggested that, in order to be awarded this form of damages, the claimant would need to demonstrate that he could not show identifiable financial loss; that *Wrotham Park* damages were available only where it was impossible to identify any financial loss. However, Christopher Clarke LJ decided that this was not a requirement (¶ 117).

52. The question for the court is what remedy is required to avoid injustice in the particular case (see ¶ 120). What is the just response is, quintessentially, a matter for the judge to decide (¶ 121). In determining that, the judge is entitled to take into account the difficulties which the claimant would have in establishing damages on the ordinary basis, albeit that there need not be insuperable difficulties (¶ 122). On the facts, there were "very real problems" in showing what placements were lost as a result of the individuals being on the scene in competition. The exercise of proving loss would be "fraught with difficulty. In addition any loss of goodwill is inherently difficult to measure."

53. Whilst an award of an account of profits is a truly exceptional remedy, the test for an award of *Wrotham Park* damages is not whether the case is exceptional, but what does justice require (¶ 126).

54. Longmore LJ emphasised that this was not a typical case of breach of non-competition covenants on the sale of a business: whilst there will often be a debate about the enforceability of the covenant, in the present case "the subterfuge and furtiveness to which [the individuals] resorted makes this a by no means typical case." That conduct had made it doubtful that interim relief could be obtained and this was a critical additional factor in determining the justice of the case (¶ 150-151).

55. Finally, Christopher Clarke LJ clarified the position at the interim stage: in deciding whether damages are an adequate remedy, the primary focus must be on whether damages, assessed in the ordinary way, will be an adequate remedy (¶ 133).

56. The approach to this form of damages was more recently considered by Leggatt J in ***Marathon Asset Management LLP v Seddon*** [2017] EWHC 300 (Comm). The defendants were found to have breached their duties of confidence and to have lied about doing so. Nevertheless, the judge determined that the claimant should be entitled only to nominal damages.

57. The judge accepted that one of the defendants, Mr Bridgeman, had copied a substantial amount of Marathon's information, such as investment portfolios and operational procedures, which he considered would be useful to his new, competing business. This and the retention

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of those documents, the judge found, was in breach of his duties of confidence. Mr Bridgeman had acted with the assistance of the other defendant, Mr Seddon. Both had sought to deny their conduct.

58. Whilst the documents were of great financial value to Marathon, it was unable to establish that any significant use had subsequently been made of the documents, or that it had suffered any financial loss as a result of the removal of the documents, or that the defendants had made any financial gain. As a result, there was no basis upon which Marathon could be awarded conventional loss-based damages or an account of profits. It therefore claimed 'licence fee damages'.

59. In assessing that claim, the judge referred to "The critical importance of matching any award of licence fee damages to the wrong for which they represent redress" (¶ 257). It was therefore necessary to have regard to the length of time for which the defendants had had Marathon's files in their possession. But the judge considered that (in the absence of any use of the files) no reasonable person would have agreed to pay more than a token sum for a licence merely to hold the files for the period in question. Only actual use of the files would demonstrate that the defendants had made any significant benefit from wrongfully holding them.

60. Marathon sought to overcome this difficulty by arguing that the defendants had by their conduct assumed the risk that they could derive benefit from the possession of the documents. The judge rejected the argument. He determined that it was based upon a fallacy that the defendants had purchased the right to use the files, when in fact one had to consider the value of the benefit that they had in fact obtained.

61. The judge decided that the coherent framework which explained previous cases was as follows:

    a. The first question to ask is whether there was an alternative means by which the defendant, acting lawfully, could have obtained the benefit gained by its unlawful act or an equivalent benefit (¶ 232). That test will be met where the benefit consists of using property which can be bought or hired in a market. The benefit can then be valued on the basis of the market price. Even when there is no available market, the benefit may be one which the defendant could have obtained in another way (for example, by paying a third party to produce the benefit).

    b. If the defendant could not have obtained the benefit lawfully, then it is necessary to ask whether it is reasonable to expect that the claimant would have granted the

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defendant a licence to use the information in return for a payment of a reasonable fee (¶ 233). In the present case, that would not have happened: Marathon would not have granted anyone a licence to use the information so central to its business.

c. In such cases, it makes no sense to value the benefit to the defendant by postulating a negotiation between a willing seller and a willing buyer: such a negotiation is not simply fictional, in that it did not happen, but "fictional in the stronger sense that it lacks any verisimilitude" and the law ought not to employ such fictions (¶ 235). In those cases, the appropriate method of valuation is to assess the amount of profit made by the defendant which is attributable to the wrongful use of the claimant's property or other wrongful act (¶ 236).

62. Since there was no profit made by the defendants, only notional damages could be awarded.

63. The case has caused some controversy, in particular on the question whether it is right that a defendant who holds but does not use confidential information should escape an obligation to pay for that privilege, irrespective of the harm in fact caused or benefit in fact obtained.

64. The *Marathon* judgment will not be appealed. However, on 12 September 2016 the Supreme Court granted permission to appeal in *One Step*.

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