WHAT/WHOSE KNOWLEDGE? RESTRAINTS OF TRADE AND CONCEPTS OF KNOWLEDGE

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[Where are the courts currently drawing the lines, between the employer’s confidential information and connections with customers and the employee’s own explicit, tacit and personal knowledge, when they are asked to enforce restraints of trade? As part of the new social economy, we see a temporal contradiction — between the desire for immediate control and the value of sharing knowledge. This article examines the concepts of knowledge the courts are using to distinguish claims and to fashion remedies. The assessment supports the primacy of this approach and recommends ways the courts should continue to refine and administer their concepts.]

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I  INTRODUCTION

A  The Interest in Restraints

Australian law has long permitted employers to apply restraints of trade to their employees. Such restraints prevent the employee from working in competition with the employer, for a nominated period of time and within a particular geographic region, after the employee has left the employment. A common statement of principles will suggest that restraints are a strictly limited exception to a judicial policy of free trade. Nonetheless, the restraints enter periods of intensity, such as in Australia now, and mutate with changes around them in economic value and social relations. Field work the author is undertaking with colleagues indicates that they are becoming more common as terms of employment contracts and in some jurisdictions they are being enforced vigorously with injunctions. The decisions to enforce have serious impacts on the parties and they also have implications for the productive use of ‘cognitive or non-material labour’ in the new knowledge economies.

Decisions about restraints involve many considerations. One court in the United States described the law there as ‘sea-vast and vacillating, overlapping and bewildering [from which one] can fish out of it any kind of strange support for anything, if he lives so long.’ This article endeavours to apply discipline to the law by making the focus the concepts of knowledge the courts are pursuing when they distinguish the employer’s claims to confiden-


tial information and customer connection from the explicit, tacit and personal knowledge the employee remains free to use. The endeavour has two goals.

The first is an old-fashioned legal interest in the decisions the courts are making. We know definition is important if the parties are to regulate their own relations and avoid costly disputes. These disputes end in the state supreme courts. While they are an interesting mixture of intellectual property and labour law, they tend to have a conceptual and practical life of their own.

The second is a socio-legal interest in the shape decisions about restraints give to economic value and social relations. Restraints are a key point at which the law defines capital and labour. The original employer has legitimate claims to intellectual and social capital, but there are also benefits to be gained from the free circulation of labour (or human capital if you will) in network economies and the social accumulation of knowledge.

The study proceeds first by clearing the ground of other principles by which the courts might decide the enforceability of restraints. It then enlists concepts of knowledge from the social sciences to act as measures of the discrimination with which the courts distinguish between the parties’ claims.

The research investigates how the courts are discriminating by reading the decisions in the New South Wales and Victorian jurisdictions in the last decade. These decisions number over 100 and the rate appears to be increasing. The reading of these decisions is aided by the judgments in the appeal courts and the long legacy of the common law which is accessible in the scholarly work in this field. Within that framework, it goes a step further,

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4 Another employer claim that is gaining in recognition is to a ‘stable, trained workforce’ — which is to be protected by placing restraints on employees from enticing other employees away with them: see Cactus Imaging Pty Ltd v Peters (2006) 71 NSWLR 9. See also Aussie Home Loans v X Inc Services [2005] ATPR ¶42-060; Allied Express Transport Pty Ltd v Mears [2010] NSWSC 1112 (17 September 2010). Shortness of space prevents analysis of this category.

5 A list of cases is appended. The decisions were located on the AustLII database, with some guidance from the LexisNexis ‘CaseBase’ and Thomson Legal Online ‘FirstPoint’ case citator services. The decisions are limited to post-employment restraints, leaving aside exclusive services contracts, or restraints on partners and other commercial parties. My thanks to Michael Cole for his painstaking research assistance.

6 As noted, the field is covered both by intellectual property and labour law. Specific works include J D Heydon, The Restraint of Trade Doctrine (LexisNexis Butterworths, 3rd ed, 2008). In Australia, the ground-making articles on this topic were: Andrew Stewart, ‘Confidentiality and the Employment Relationship’ (1988) 1 Australian Journal of Labour Law 1; Andrew Stewart, ‘Drafting and Enforcing Post-Employment Restraints’ (1997) 10 Australian Journal of Labour Law 181. More recent analysis includes Arthur Moses, ‘Restraints of Trade in New South Wales’ (2004) 1 University of New England Law Journal 199 and Amanda Coulthard,
finding patterns of decision-making in the recent cases, some of them interlocutory proceedings, some of them trials. The decisions are marshalled around the concepts of knowledge. It is empirical research, building up rather than down, but it is a necessary approach if the law is to be accurately assessed. The method is consistent with a trend in intellectual property and labour law research, which might be regarded as part of a new legal realism. It is supported by the approach the courts say they should take to restraints. So the analysis cannot be content with a statement of principles, it needs to see what the courts are actually deciding. In Stacks/Taree Pty Ltd v Marshall [No 2], McDougall J made the point that:

There can of course be a problem with excessive reliance on decided cases. The question of validity of a covenant in restraint of trade (including, in this, a covenant against solicitation of the covenantee’s customers or clients) is not really a question of law. Decided cases state the relevant principles, and may prove useful, indeed valuable, guidance as to their application in particular factual circumstances. But the validity of a covenant in restraint of trade is to be assessed having regard to the terms of the particular covenant and the facts of the particular case.

B Decision-Making Principles

Some practitioners might protest that the decisions are not at their core about concepts of knowledge. My contention is that other principles play a part but they are subordinated to these concepts. In this regard, it is first necessary to say that the courts do not follow the principle of freedom of contract as the basis for enforcing restraints. It is true that the restraints originate in contracts — contracts can be regarded as the legal technology for producing


An intriguing sub-story is whether the Supreme Court of Victoria is markedly more sceptical about enforcing restraints than the Supreme Court of New South Wales. Robert Dean gives this some credence: see Robert Dean, ‘Protection of Know-How and Customer Lists’ in R Dean and T Ginnane, Protection of Customer Lists and Confidential Information (Leo Cussen Institute, 2009) 14.


[2010] NSWSC 77 (1 March 2010) [54].
restraints. The courts hear argument that restraints should not be enforced because the parties have not observed the principles of contract formation and performance. In principle, restraints might be unenforceable if the making of the contract is vitiated by some factor (such as misrepresentation, duress or unconscionability), or the employer has repudiated the contract or terminated it in some other way.

Yet the converse is not the case. Some courts do definitely warm to an argument that the parties have bargained for the restraint and that their contract should be upheld. This gives weight to the conclusion that the restraint is reasonable, all else being equal. However, it remains the case that the fact of the contract is not enough. Freedom of contract has strong supporters, but the courts do not simply regard the restraint as a kind of tariff that the labour market can bear at a particular moment, or as a private and autonomous deal between two commercial parties, so that the salary pays for the restraint. Rightly so, the validity of the restraint must be assessed on grounds of public policy.

Equally so, however, it should be appreciated that the courts do not hold restraints invalid because they place a restriction on competition. The decisions show that the courts are prepared to restrict the employee's freedom to work and use knowledge if it is necessary to protect the employer's legiti-

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10 For the emergence of this role, see Catherine L Fisk, Working Knowledge: Employee Innovation and the Rise of Corporate Intellectual Property, 1800–1930 (University of North Carolina Press, 2009). Fisk finds that contract became the legal form for employment relationships just at the time that working knowledge was being seen as a corporate asset.

11 Though, within the decisions, this argument rarely leads to non-enforcement: see Ecolab Pty Ltd v Garland [2011] NSWSC 1095 (Brereton J).


13 The High Court makes this clear in Maggbury Pty Ltd v Hafele Australia Pty Ltd (2001) 210 CLR 181, 203–4 [56]–[58] (Gleeson CJ, Gummow and Hayne JJ), when ruling that an employee could not be held to a restraint not to use information once it was in the public domain.


15 Restraints have an exemption from scrutiny under the National Competition Policy: see s 4M of the Competition and Consumer Act 2010 (Cth).
mate business interests.\(^\text{16}\) The question is which interests are 'legitimate'. The analysis finds that the courts use concepts of knowledge to decide the limits of the employer's legitimate interests. This is a principled approach but one that would benefit from further refinement. It is true the courts do not simply insist that confidential information or customer connection is the employer's property — to be protected as of right — though it is of concern that occasionally such language does surface.\(^\text{17}\) At the same time, the courts have not developed an investment theory to determine which knowledge is the employer's to restrain.

The courts do show interest in the investment employers have made in the explicit knowledge they claim as their own knowledge. Such investment is a factor that may be taken into account when determining the confidentiality of information (see below Part IIIC). Nonetheless, the courts have not adopted an investment theory which would justify the restraint of the other explicit knowledge the employee carries away with her, or the employee's tacit and personal knowledge. Unlike the United States law, the employer's investment in the education and training and the other human capital development of the employee is not ground for a restraint.\(^\text{18}\) Nor should it be. For, once this approach is adopted, it is necessary to think about the effect on the investment of the employee. Katherine Stone argues, now that employers do not provide

\(^{16}\) Of course they can find in a particular case that there is not going to be any competition. One version is when the employer terminates the services of the employee or makes her redundant. In the recent case of *Ecolab Pty Ltd v Garland* [2011] NSWSC 1095 (14 September 2011), Brereton J found the significance of the customer connection was much reduced by the restructuring of the employer's business and there was not a perceived need for a replacement employee to establish a similar connection. He exercised his discretion not to enforce the non-compete clause, yet he still enforced the restraint against soliciting customers.


\(^{18}\) See, eg, *Wallis Nominees (Computing) Pty Ltd v Pickett* [2012] VSC 82 (14 March 2012) [66] (Sifris J):

The particular skills or experience that Pickett may have gained in the course of employment with DWS do not constitute a legitimate business interest that DWS is entitled to protect by way of restraint. DWS cannot enforce the restraint to prevent Pickett from competing or using the human capital he acquired while in the employ of DWS and otherwise to pursue a career at Grocon.

There are other ways such investments can be protected, including retention packages for staff.
job security, that employees expect to be able to take away with them the benefits of their human capital development with the employer. Otherwise, they will be reluctant to invest. Furthermore, it is most likely that the employee will have acquired knowledge in other ways and it will be arguable how much is the result of this employer's education and training. Moreover, there is a strong current body of research that the economy gains overall if restraints are not overly enforceable. The accumulated gains from employee mobility and transfer of knowledge exceed any losses to the particular employer. This research has been taken up in the commentary on the law.

This paper is not recommending that the courts base their decisions on an investment theory. It would not provide a reliable enough basis on which to make judicial decisions. When they use concepts of knowledge to draw the line between employer and employee, they should take great care to attribute the knowledge accurately. Any laxity or generosity in attributing the knowledge to the employer will be an interference with the employee's freedom to use that knowledge elsewhere. While employers do have knowledge they are entitled to protect, such a view is on guard against the courts being too protective of incumbent employers. In particular this paper recommends:

- when enforcing a restraint on work with competitors, the courts should insist that the employer specify confidential information with precision, even if that information could be said to have merged in the employee's head with the employee's explicit, tacit and personal knowledge;

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19 Such as the benefits of education and training, skill development and networking opportunities, including networking with customers: see Stone, *Widgets to Digits*, above n 3, 144–54. So this makes a virtue of the freedom to use the knowledge acquired on the job — as well as the knowledge the employee has acquired independently (see below Part IIA).


• in deciding whether information is confidential, and for how long it remains so, the courts should place emphasis on the utility of the information and the ease with which it can be externally acquired or duplicated;
• in deciding whether to protect the employer’s connection to customers, the courts should first seek evidence of confidential information about customer service, before moving to restrain the employee’s personal knowledge of and influence over customers;
• the courts should be very reluctant to find that the employee’s personal knowledge of and influence over particular customers is ‘in truth’ attributable to the employer; and
• the courts should firmly favour restraints on activities that fall short of non-competition and restraints that run in time strictly according to the utility of the employer’s information.

C The Role of Time

One further introductory note is useful. While the courts rely on concepts of knowledge to distinguish the parties’ claims, these concepts are not entirely discrete. The courts have hard cases to decide where it is difficult to draw the line: giving the employer some control, somehow without depriving the departing employee (and others) of use of their knowledge. Some knowledge is carried in the employee’s head, for instance, giving rise to the problem of the merger or melding of the employer’s and the employee’s knowledge (see below Part IIIB).

At the same time, knowledge is increasingly fluid, so to some extent the hard choices can be ameliorated. To soften the lines, the courts may moderate the remedies they award the employer.22 The research finds that time plays a key role in this moderation. I argue that this moderation sits well with the current concepts of knowledge. Our sense of time seems to be speeding up. Time brings change and produces innovation. It is rare for knowledge to be kept in-house for very long or for products and services to stay the same. Yet in the meantime that knowledge can be valuable, giving advantages to the first mover. In seeking to enforce the restraint, the employer is seizing a moment of control in a sea of movement and flux; for instance, before information loses

its novelty or currency or before customers alter their preferences or transfer their attentions.23

The courts can show a preference for restraints that are strictly limited in time according to the utility of the information. Increasingly, in practice, the employer’s advisers anticipate this response by drafting clauses with so-called cascading or laddered provisions. Provided the provisions can be separated, the courts have options regarding the period to choose.24 The Restraints of Trade Act 1976 (NSW) goes further — it gives the courts the discretion to reduce or read down a restraint to what is reasonable.25 The discretion the courts enjoy to award an interlocutory injunction is another source of moderation. The argument against this retrospective process of moderation is that it relies on the parties going to court.26 The field work shows that the parties can be unevenly matched in negotiating the legal process. The employee is often at a disadvantage, though it should be kept in mind that the equation can change dramatically if she is backed by the new employer. To discourage a game of bluff, the courts should lead the way and set strict standards.

23 In a recent discussion, Andrea Fumagalli characterises this approach as a ‘temporal contradiction of cognitive capitalism’: Andrea Fumagalli, ‘The Global Economic Crisis and Socioeconomic Governance’ in Andrea Fumagalli and Sandro Mezzadra (eds), Crisis in the Global Economy: Financial Markets, Social Struggles, and New Political Scenarios (Jason Francis Mc Gimsey trans, Semiotext(e), 2010) 61, 66.

24 The use of these provisions received support in the recent New South Wales Court of Appeal decision Hanna v OAMPS Insurance Brokers Ltd (2010) 202 IR 420.


26 Stewart has recently recommended these clauses be banned: see Nickless, above n 2. The employer has little to lose by starting the restraint high: Griffin Toronjo Privateau, ‘Putting the Blue Pencil Down: An Argument for Specificity in Noncompete Agreements’ (2008) 86 Nebraska Law Review 672.
II CONCEPTS OF KNOWLEDGE

A Explicit, Tacit and Personal Knowledge

How sound are the concepts the courts deploy? The social sciences provide a useful external measure. They characterise knowledge by the form it takes — as explicit, tacit or personal knowledge.27

Explicit knowledge is said to be information-based, objective, task-related knowledge, so-called ‘know-what’. Thinking about the location of knowledge, this explicit knowledge can be firm-specific, industry-wide or general knowledge.28 The distinguishing characteristic is the form: it is amenable to codification.29 This means explicit knowledge is accessible to both employer and employee.

Tacit knowledge is experience-based, subjective knowledge, so-called ‘know-how’, including skills as well as deeper understanding, such as the sensibilities of the reflective practitioner, which is sometimes called exercising judgement. Michael Polanyi says that the value of tacit knowledge lies in our ability to use it. Even though we might not always be able to articulate or explain this knowledge, we can apply it to our work.30 Such knowledge merges into the person. As van Caenegem suggests, it becomes a skill or attribute.31 Thus, tacit knowledge tends to reside in the individual worker.32 The firm gets the use of it from the retention of knowledgeable employees and then a process that encourages them to share it with others.33 Otherwise, it will transfer with the movement of the employee to another firm, unless the law will let the employer control the person.

Personal knowledge includes talent, aptitude, artistic ability, creativity and intuition. This type of knowledge is also described as dispositional knowledge.

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28 For these distinctions, see Gary S Becker, Human Capital: A Theoretical and Empirical Analysis, with Special Reference to Education (National Bureau of Economic Research, 2nd ed, 1975).


31 van Caenegem, above n 21, 291.


33 The employer needs internal policies to encourage disclosure within the firm: see Peter Busch, Tacit Knowledge in Organizational Learning (IGI Publishing, 2008).
The name suggests it resides in the individual employee. Possibly, it can be acquired by others by modelling or emulating the behaviour of that individual. Much of it reflects innate attributes and capabilities or at least is the product of the person’s background and milieu; social knowledge the employee has acquired through family, class, ethnicity and place. Thrift argues that, in the service and media industries, the key talent is to be able to 'perform' this knowledge in the moment reflexively. Such continually improvised knowledge performance cannot be frozen in time — as capital rather than labour.34

B Production Knowledge

For the analysis of the law, it is useful to think of explicit, tacit or personal knowledge in two categories of knowledge content — as production knowledge and customer knowledge.35

Explicit production knowledge could be scientific formulae or instructions for making and operating technologies. Firm-specific explicit production knowledge consists of the plans for distinctive products and services. The employee also has access to explicit production knowledge through formal education. Industry knowledge can be codified within the syllabus of a profession or a trade. While employed, the worker acquires industry knowledge through participation in continuing education, professional associations and the social media. A lot of industry knowledge is gained on the job and it extends to informal ways of doing things, so it can also be tacit knowledge. Such knowledge can include personal operating styles and skills, which takes it into the third form, personal knowledge. It is important to keep in mind that some employees are at heart better teachers, managers, drivers or makers than others.

To give more flesh to these concepts, it is useful to enlist illustrations from a sector familiar to us, the legal services sector.36 Much of the legal production knowledge, such as knowledge of legal principles and procedures, would be characterised as explicit. It could be industry-wide or firm-specific knowledge of the firm’s operations, like precedents for handling matters. Yet some legal

35 Laura Empson, ‘Fear of Exploitation and Fear of Contamination: Impediments to Knowledge Transfer in Mergers between Professional Service Firms’ (2001) 54 Human Relations 839, 842.
knowledge would be better regarded as tacit or personal. For example, procedural knowledge can be of explicit rules (learnt at law school or more likely in practice), but good lawyers also develop tacit knowledge, which is gained through close and open relationships with colleagues and officials — the communities around the courts. To be successful, litigators need also to possess certain aptitudes or dispositions, maybe a particular personality type. Some legal services are said to become routine or ‘commoditised’. However, in complex matters, they rely on experience and judgement; indeed the litigator needs to know to be proactive and tenacious, which is personal or dispositional knowledge.

**C Customer Knowledge**

Customer knowledge includes understanding of the characteristics of the sector from which the clients are drawn — the demographics for instance. Marketing and sales techniques are built nowadays on the insights of the modern management sciences, such as neuroscience, cognitive and social psychology, and statistics. Employees are trained in techniques and even given scripts to follow. Such knowledge can also be firm-specific. It consists of detailed knowledge of particular customer organisations and key individuals within them. Increasingly, efforts are made to systematise such knowledge of customer characteristics and preferences in order to plan new products and services. This information is gathered from shopping baskets, smart cards, loyalty programs, satisfaction surveys and focus groups.

Such information is explicit. It can be captured by the firm and made available to the employees who are replacing the ones who are leaving. However, some knowledge is relationship-based, that is, it is built on intimacy, trust and understanding between individuals and it grows with interaction over time. Not all such knowledge can be codified, so it is tacit knowledge and it resides in key individuals, which puts the employees who have been working with the customers at an advantage. But it is not simply being in the right place or rather being put in that place by the employer. Some individuals are better able to acquire and exploit such knowledge. They have sensibilities, intuition and charm. They bring their own talents to the job, qualities which are innate or inherent in their personality or a product of their social history.\(^{37}\) In other words, they have superior personal or dispositional knowledge.

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In the illustrations of Suseno et al, legal service providers also have knowledge of client sectors and how to do business with them. Some such knowledge could be codified, but it is also relationship-based. The latter is likely to be more tacit than explicit, built once again on accumulated experience of specific dealings with particular clients. For client specific knowledge, Suseno et al cite knowledge of needs and concerns. These are insights into the client’s business, so that services can be customised and the best providers anticipate the clients’ needs. But as hard-headed as the clients are, increasingly ready to redistribute patronage, there might still be a subjective element, the development of an affinity. Suseno et al say the professionals use social capital to acquire this knowledge. With such social capital comes the opportunity to get to know the clients. Some social capital is acquired on the job from the employer’s introductions, yet the employee also brings social capital to the employer from outside. Furthermore, clients value professionals for different qualities and not all lawyers have a winning style with clients, even if they have had the benefit of exposure to them. Not all for instance are ‘rainmakers’. Such employees know how to deal with customers generally; they have not simply been given information about particular customers. This is why one professional leaving will weigh more heavily than another.

III Production Knowledge in the Decisions

In this section, the key legal concept for assessment is confidential information. Among the concepts just arraigned, confidential information can be regarded as a subset of explicit knowledge. The employee will acquire knowledge from a variety of sources, some of it in the employment, but it is really only confidential information that the employer should claim to control. I argue that, if it is to be protected, this information must be distinguished from the employee’s explicit, tacit and personal knowledge, including other industry useful knowledge the employee has acquired in the service of the employer.

38 Suseno et al, above n 36.
40 Ibid.
42 See Maggbury Pty Ltd v Hafele Australia Pty Ltd (2001) 210 CLR 181, 202 [54] (Gleeson CJ, Gummow and Hayne JJ).
In applying the general law obligations of fidelity and confidentiality to the post-employment situation, the courts do insist on such standards. Researching the restraint enforcement decisions, the key question was whether the courts insist on the same standards or loosen the concept of confidential information to extend the employer’s control, at least for a time. In applying the general law, the courts have been conservative about the content of the knowledge that qualifies for protection. More to the point, they have been concerned about the form the knowledge takes. They have insisted the information be identified with precision. In deciding whether it is confidential, and for how long it remains so, they asked whether it would be difficult to acquire or duplicate the information independently. Finally, they have declined relief where there is a merger problem — where the employer’s information is hard to keep separate from the employee’s own explicit, tacit and personal knowledge. I show this below and I argue that the courts should be reluctant to relax these standards to enforce restraints.

A The Employer’s Explicit Production Knowledge

The law is not settled. It is fair to say the rulings are not clear, especially for those who would like a bright line. A source of uncertainty is the different ways the trial judge in the Chancery Division and the Court of Appeal in the 1985 case *Faccenda Chicken Ltd v Fowler* distinguished between the coverage of the general law and restraints. In Australia, the decision-making indicates that the courts favour an expansive concept of confidential information for restraints. If, post-employment, the general law only protects trade secrets and equivalent information of a high level of confidentiality, restraints protect ‘other confidential information’ as well.

In *Faccenda Chicken Ltd v Fowler*, the ‘other confidential information’ was the whereabouts and requirements of the customers, the prices they had been

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43 Mention should also be made of the express confidentiality agreement (sometimes called a non-disclosure agreement). This provision can indicate to the employee what the employer regards as confidential even after the employment has ended. But it will not necessarily extend the coverage beyond the general law, for it is often very hard in an ongoing employment relationship to identify with precision at the outset the confidential information the employee will encounter.


45 Or if we were to stick with the concept of trade secrets for both the general law and restraints, the concept has different meanings in the two areas of law: see *Del Casale v Artedomus (Aust) Pty Ltd* (2007) 73 IPR 326, 352 [128]–[129] (Campbell JA).
paying, and the routes by which they were conveniently visited.\footnote{[1987] 1 Ch 117, 139 (Neill LJ).} In \textit{Wright v Gasweld Pty Ltd},\footnote{(1991) 22 NSWLR 317.} an early Australian case to adopt this distinction, the other confidential information was the identities of the four most reliable suppliers of metal hardware tools. These suppliers were part of a pool of some 3000 suppliers who were all located in Taiwan.\footnote{Ibid 330 (Kirby P).}

Why the tendency to differentiate between trade secrets and other confidential information? In my view, the issue is not so much whether to distinguish between secret processes of manufacture (such as chemical formulae) and more mundane information of a commercial or business nature, but whether to relax the more fundamental requirements of the general law when it comes to restraints. We need to rehearse these requirements to see what is at stake.

The first requirement of the general law takes up the form of the knowledge. The information should be capable of identification with precision. This suggests such knowledge is crystallised or codified information. Codification draws the boundaries around the information. In the general law cases, the Supreme Court of Victoria is notable for its insistence that this requirement be met. It has struck out claims, found against employers, and made adverse costs awards, because the claims were made too loosely or vaguely. In \textit{GlaxoSmithKline Australia Pty Ltd v Ritchie [No 2]}, Harper J awarded costs against the employer on a full indemnity basis because the employer did not define the information sufficiently.\footnote{(2009) 22 VR 482.} In \textit{Meridian Vat Reclaim Australia Pty Ltd v Agius}, Harper J demanded particularity of pleading to avoid abuse of process.\footnote{[2006] VSC 503 (21 December 2006) [45].} In \textit{Manderson M & F Consulting v Incitec Pivot Ltd}, Croft J struck out the claim because the information was not identified with precision.\footnote{[2010] VSC 63 (9 March 2010).} I argue that the restraint decisions should also insist that the information be identified with precision.

Even if the claim does identify explicit knowledge, it will not necessarily be the employer’s information to control. The quality of confidentiality is the second requirement the general law applies to distinguish the employer’s explicit information from the employee’s knowledge. Confidential information is firm-specific explicit knowledge. Robert Dean lists 12 factors the
courts take into account in deciding whether information is confidential or not. Among the factors are: the extent to which the information is known outside the business; the extent of the measures taken to guard against the secrecy of the information; the value of the information to the plaintiffs and their competitors; the amount of effort or money expended by the plaintiffs in developing the information; and the ease or difficulty with which the information could be properly acquired or duplicated by others.52

Commendably, the general law cases display rigour in identifying these factors. I argue that the restraint decisions should also be serious about doing so. The general law cases distinguish confidential information from knowledge that is common throughout the industry.53 They go further, allowing the employee the use of information, so long as the information could be ascertained independently of the exposure to it within the employment, even if that exposure was the way in fact the employee learnt of it. Of course, if it is ascertainable, it could be knowledge that is already in the public domain. More difficult to assign is information that would require some expertise or at least effort to determine independently. It might be ascertainable by inquiry or experiment, by trial and error, or even in some cases by way of reverse engineering. We might say that this information is never confidential — or at least that at some time it will become known outside the firm.54

For the general law to withhold its protection, the information does not have to be that easy to ascertain. For example, in Wright v Gasweld Pty Ltd, the identities of the most reliable suppliers were not generally known in the industry and the information was the result of the employer’s experience — by trial and error — obtaining supplies.55 In Del Casale v Artedomus (Aust) Pty Ltd (‘Del Casale’), the information was a particular name given to the modica type of stone.56 Knowledge of the name made it possible to locate sources of supply in Sicily. That information was acquired by going to trade fairs in Europe. Yet, Campbell JA said such information is still not to be regarded as a trade secret, for it is information that a ‘determined and persistent trade rival’

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53 President Kirby made this clear in Wright v Gasweld Ltd (1991) 22 NSWLR 317, 333. The general law cases are generally good examples of the care with which the courts distinguish the information: see Bluescope Steel Ltd v Kelly (2007) 72 IPR 289 (steel making); GlaxoSmithKline Australia Pty Ltd v Ritchie (2008) 77 IPR 306 (methods of extracting opiates from poppies).
54 See Stewart, Griffith and Bannister, above n 17, 102 [4.8].
56 (2007) 73 IPR 326.
could find out.\textsuperscript{57} In \textit{Manildra Laboratories Pty Ltd v Campbell}, the information was the employer's business plans and the inputs and integers used in their calculations and projections.\textsuperscript{58} McDougall J observed:

> On the contrary, I think, it falls within the category of information which, even if notionally confidential, is nonetheless capable of being ascertained, or ‘reverse engineered’, by any person with Mr Campbell's substantial experience in the [wheat milling] industry.\textsuperscript{59}

\textbf{B The Employee's Explicit, Tacit and Personal Knowledge}

With this emphasis on the employer, it is possible to forget that the employee, even if she is the recipient of some confidential information, will often be a reservoir of much explicit, tacit and personal knowledge (see above Part IIA).\textsuperscript{60} Indeed, this is the message of the new cognitive economy, that so much more economic value is being embodied in the knowledgeable worker. The difference between the general law duty and the restraint also lies in the response to the merger problem. Here the courts can identify confidential information in principle but in practice they find it hard to separate it out. They have to exercise a policy preference for the employer or the employee — unless they can moderate the remedy, particularly on the basis of time, to make some allowance for both sides. Unless the information is a trade secret, the general law responds in favour of the employee, while the decisions suggest that restraint of trade law favours the employer. Again we begin with the general law.

The first situation does not have to be treated as a problem because time draws the line. After the employee leaves, she uses the background knowledge she has acquired to derive specific items of information. They prove to be competitive with her former employer.\textsuperscript{61} Now she has explicit production information. Yet the background knowledge she took away from the employment is a step removed from such knowledge; it is part of the employee's

\begin{itemize}
\item \textsuperscript{57} Ibid 360 [156], quoting \textit{E Worsley & Co Ltd v Cooper} [1939] 1 All ER 290, 308 (Morton J).
\item \textsuperscript{58} [2009] NSWSC 987 (23 September 2009).
\item \textsuperscript{59} Ibid [119].
\item \textsuperscript{60} Especially those against whom it is worth asserting a restraint. Junior employees, even if they have had the benefit of education and training, are rarely the target.
\end{itemize}
explicit, tacit and personal knowledge. The tacit and personal knowledge is knowledge of a problem, its conceptualisation, and the capacity and drive to envisage solutions and employ methods to obtain them. So there is no real clash, provided the employer never really had confidential information to protect. It is a different matter if the employee uses confidential information to develop another product.

The second situation is the harder case — the employee takes away confidential information with her own knowledge. In this respect, the courts distinguish the knowledge the employee has taken away in her head from information that has been reduced to a material form. Some information is so detailed and elaborate that it is impossible to memorise or absorb — a set of legal precedents or a list of customers’ names and addresses might present this challenge. The employee takes the documents.

Yet the fact that information has not been committed to a material form does not necessarily make it the employee’s knowledge. For a formula, like a poem, could be memorised, that is, learnt by heart. Rather, the problem with such information is that it is not discrete. It might not be possible for the employee to separate or isolate it from her general body of knowledge; the two have melded. The courts must find a way to stop the employee from using it — without preventing her from practising her trade. In *Del Casale*, Hodgson JA put the problem this way:

62 Polanyi, above n 30, 17.

63 The employee is found to have photocopied files or sent electronic copies on email attachments or message sticks to home computers. This conduct indicates that the employee was making preparations to compete while still employed — a breach of the obligation of good faith and fidelity, perhaps of a fiduciary duty depending on the status of the employee: see *Del Casale v Artedomus (Aust) Pty Ltd* (2007) 73 IPR 326, 341–6 [76]–[100] (Campbell JA). The obligation may be enforced even after the employment has ended. For insight into the nature of this duty, see Breen Creighton and Andrew Stewart, *Labour Law* (Federation Press, 5th ed, 2010) 413–23 [14.13]–[14.27]. A breach of copyright may also be involved. Federal Court cases embrace these multiple causes of action: see *Blackmagic Design Pty Ltd v Overliese* (2010) 84 IPR 505, 538–40 [101]–[105] (Jessup J); *Futuretronics.com.au Pty Ltd v Graphix Labels Pty Ltd* [2007] FCA 1621 (29 October 2007) [138]–[145] (Besanko J).

64 In some cases, a distinction is made between information that is deliberately memorised while the employee is on the job and information that is accidentally or unavoidably accumulated and remembered. Deliberate memorisation suggests again (see above n 63) that the employee has been making preparations to compete while still employed and is in breach of the implied duty of good faith and fidelity: see, eg, *Broadwater Taxation and Investment Services Pty Ltd v Hendriks* (1993) 51 IR 221. However, it is important to the rationale for restraints to note cases where the employee is found not to have been making preparations: see *GlaxoSmithKline Australia Pty Ltd v Ritchie* (2008) 77 IPR 306; *Hodgson v Amcor Ltd* [2012] VSC 94 (20 March 2012).
In my opinion, the stronger [Dean’s] factors are in any particular case, the more likely it is that the particular information will be treated as a trade secret that the ex-employee is not entitled to use or divulge; but in my opinion, there is another factor or class of factors which is also extremely important to this question, namely the extent to which the particular information can be readily isolated from the employee’s general know-how which the employee is entitled to use after the end of employment.65

The power of the mind is one reason why it cannot be isolated. The confidential information cannot be kept separate from other explicit knowledge that is not confidential, or indeed from tacit and personal knowledge — the employee’s know-how. In GlaxoSmithKline Australia Pty Ltd v Ritchie, Harper J said:

An employee’s stock of knowledge cannot by deliberate choice be forgotten; and, if retained in the memory, cannot be discarded when the employee carries out tasks, which necessarily draw on that knowledge, for the new employer.66

Another, though, is the novelty and inventiveness of the information. In Del Casale, Hodgson JA linked this element to the use of background knowledge:

However, where the confidential information is something that is ascertainable by enquiry or experiment, albeit perhaps substantial enquiry or experiment, and the know-how which the ex-employee is clearly entitled to use extends to knowledge of the question which the confidential information answers, it becomes artificial to treat the confidential information as severable and distinguishable from that know-how; and in that kind of case, courts have tended not to grant relief.67

C. The Reach of the Restraint

If the common law is conservative about enforcing confidentiality against the employee, the restraint alters the balance. As restraints become common, the question is how much inroad they make into the employee’s use of her explicit, tacit and personal knowledge, sometimes called the employee’s

65 (2007) 73 IPR 326, 336 [41].
'know-how'. How far should the requirements of the general law be relaxed to extend the employer's control?

It is clear from the decisions that the restraints may protect 'other confidential information' as well as general law trade secrets. Indeed, in the decisions, there is very little discussion of whether the information is one or the other. Nonetheless, the restraint can only be justified if first there is some confidential information to protect. The employer must show the legitimate business interest. Then the court may still ask whether the reach of the restraint is reasonably adapted to the protection of that interest. At this point it can compare the difficulties for the employer with the impact on the employee's use of her knowledge. The moral hazard is that the availability of the restraint could relieve the employer of the onus to prove the existence of such information at all. This might be tempting given that the control will now only be for a limited period. Certainly, it might be tempting in an interlocutory proceeding, where the situation is pressing, and the employer only has to show that there is an arguable case or a serious issue to be tried, and that the balance of convenience lies with the grant of an injunction. The injunction is a powerful remedy of prevention; the employer does not have to show that he has actually suffered any harm, just the potential for harm, and that damages would not be an adequate remedy.

On the scope of the restraint, Hodgson JA's judgment in the recent New South Wales Court of Appeal case, Miles v Genesys Wealth Advisers Ltd ('Miles'), is concessionary. Counsel for the defendant submitted that it is necessary both to identify with some precision what was alleged to be confidential information and to show that it was truly confidential. In the opinion of the Court, it is important to keep in mind that this is not a case where what is relied upon is: (1) an equitable obligation of confidentiality; (2) the existence of a trade secret; or (3) a direct restraint against the use of confidential information. Rather it is a (4) case, where there is a restraint on engaging in certain conduct by reference to the potential for confidential information to be used. In the first three categories, the Court says, it is plainly necessary to identify with some precision the confidential information. However, different considerations apply in relation to category (4). In this case, the Court concludes, having regard to the circumstance that it is a


69 See, eg, BDO Group Investments (NSW-Vic) Pty Ltd v Ngo [2010] VSC 206 (21 May 2010) [67]–[68] (Croft J); and it seems that is possible even if there is a liquidated damages provision in the contract.

70 (2009) 201 IR 1, 15–16 [22]–[27].
category (4) case, there was sufficient identification of information that was sufficiently confidential to justify the restriction.71

Then, if this information is to be protected, in response to the merger problem, it is reasonable to place a restraint on competition. The courts say the non-compete clause (‘non-compete’) should be enforced because it is difficult to separate or isolate the employer’s confidential information. The restraint is attached to the employee rather than the information itself. It is enough that the employee is going to work for a business which could make use of such information to the employer’s disadvantage. Hodgson JA took up the point Lord Denning MR made in Littlewoods Organisation Ltd v Harris:

But experience has shown that it is not satisfactory to have simply a covenant against disclosing confidential information. The reason is because it is so difficult to draw the line between information which is confidential and information which is not: and it is very difficult to prove a breach when the information is of such a character that a servant can carry it away in his head. The difficulties are such that the only practicable solution is to take a covenant from the servant by which he is not to go to work for a rival in trade. Such a covenant may well be held to be reasonable if limited to a short period.72

In my view, this allowance has the potential for abuse. If the Court of Appeal is ready to give this comfort, what have the decisions been doing? When researching the pattern of recent decision-making, the decisions indicate that the courts do go about this task conscientiously, seeking evidence of confidential information.73 They dismiss as well as grant applications for enforcement. In some cases, they find that the employer has confidential information to protect. Indeed, it is information about the firm; it is the employer’s plans for a new product line or process or the basis on which it prices its services to its customers.74 This may not be all the information the employer has claimed.75

71 Ibid. Nonetheless, in this case, the trial judge had found that ‘the information received by Mr Miles and identified by Genesys was at a high level of confidentiality’: at 17 [28], quoting Genesys Wealth Advisers Ltd v Miles [2008] NSWSC 802 (7 August 2008) [76] (Palmer J) (emphasis added). The information was about the health (funds and revenues) of member firms using the employer’s platform for their clients’ investments.


73 Mind you, we have to go on the judgments alone. From this research we do not see the strength of the affidavits or other evidence or listen to the arguments put to the court.

74 Blockbuster Australia Pty Ltd v Karioi Pty Ltd [2009] NSWSC 1089 (16 October 2009) (customer video hire histories); IceTV Pty Ltd v Ross [2007] NSWSC 635 (3 July 2007) (media
Provided it is sufficient, the existence of this information justifies the enforcement of the non-compete and the control of the employee’s know-how for the time being.76

In other cases, the courts find there is no confidential information to protect. This is because there is no information identified at all. For example, in *Towers, Perrin, Forster & Crosby Inc v Taplin*, a financial services case, the Supreme Court of Victoria dismissed the employer’s claim due to the nebulous nature of the information — the employer’s business model for managing superannuation investment assets.77 Or, it is not confidential, because the information is in the public domain. In *Springboard Consulting Group Pty Ltd v Cunningham*, a recruitment services case, the Court found the material in the staff training manual about sales techniques, terms of trade and the company’s profile to be so.78 Of particular interest to this inquiry is whether the information is easy to acquire or duplicate. In *Tullett Prebon (Australia) Pty Ltd v Purcell*, another financial services case, the Supreme Court of New South Wales suggested that the brokerage rates in dispute could ‘be worked out by deduction, did not differ widely, and while not irrelevant were usually not the most important factor in winning business’.79

These types of decisions provide reassurance that the courts are wary of employers claiming control of business methods, sales techniques or investment strategies, which are really the stock-in-trade for that manufacturing industry or service sector. They are absolutely vital to the policing of the use of restraints and because of the factual basis of the cases they depend on the courts remaining vigilant and sending a message to the parties through the pattern of their decision-making.

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D Remedies and the Role of Time

To return to the original proposition about time, there is evidence that the remedies offer some opportunity to balance the employer's control of information with the employee's use of knowledge.

One way to fashion the remedy is to limit the activity placed under control. Stewart recommends this: ‘a more robust view of human capacity to stay silent on matters specifically identified in an injunction’; that is, to respect the confidentiality of specific items of information. In this regard, he would prefer the courts to enforce the general law obligations. Otherwise, he feels, the acceptance of the merger argument robs the employee's general law duty of much of its content. This certainly should apply if the employee will not be working with the information but just disclosing it to someone else.

At the same time, Stewart is critical of the use of restraints to overcome the merger problem. Perhaps though, rather than preventing the employee from working altogether with a competitor, the restraint can be limited to the employee making use of the confidential information. In our field work, we heard that, in settlements of such cases, the new employer might agree to place the employee in training or assign her to another department for the period of the restraint. In Wright v Gasweld Pty Ltd, Kirby P pointed out the employee could still take supplies from the other (2996) suppliers during the period of the restraint. In Miles, Hodgson JA said the impact of the restraint was to some extent ameliorated in this case by the qualification permitting Mr Miles to engage in something like the area of his expertise in the particular way contemplated at the time, namely in any Member Firm that he buys into.

He could also work in his area of expertise outside the member firms. The case of Reed Business Information v Seymour is a recent New South Wales decision in which the Court makes the careful assessment that the employee will abide by an order not to disclose or use specified information and so will

80 Stewart, ‘Confidentiality and the Employment Relationship’, above n 6, 21. See also Transpacific Industries Pty Ltd v Whelan [2008] VSC 403 (7 October 2008) (landfill acquisition plans), where the court found the information to be separable: at [92] (Whelan J).
81 Stewart, ‘Confidentiality and the Employment Relationship’, above n 6, 10.
82 A point made in Del Casale (2007) 73 IPR 326, 337 [47] (Hodgson JA), 342 [78] (Campbell JA).
83 Stewart, ‘Confidentiality and the Employment Relationship’, above n 6, 18.
85 (2009) 201 IR 1, 20 [43].
not have to be restrained from working for another employer altogether. 86
There are also cases where the court accepts the employee’s undertaking to
respect the confidentiality. This effect is vital if the dead hand of the non-
compete is to be avoided.

Yet it is evident from the decisions that the procedural concern remains —
that the employer will face difficulty ensuring the information is not being
disclosed and used once the employee does actually start work. 87 The breach
will be hard to prove; several of the decisions cite Lord Denning MR as the
rationale for the non-compete. 88 If an order is made not to disclose or use the
information, and then there is a breach, the employer will have to return to
court and the employee may be found in contempt. 89 With this in mind, the
more ‘practical’ protection of the employer’s interest is the non-compete, the
complete restraint on work with a competitor for a period of time.

If the non-compete is to be enforced, then the court needs to find a basis
on which to determine that period. Time becomes the means by which the
conflicting interests are balanced. Where a restraint of trade is involved, the
most obvious is the period expressed in the restraint itself. Yet that period
must still be reasonable. For the protection of information, an intriguing
version is the time it takes the employee to forget the information she has
carried away in her head. This prospect might depend on the volume and
complexity of the information, together with the mental powers of the
employee in question. In John Fairfax Publications Pty Ltd v Birt, the Court
was not persuaded the employee could put it out of his mind straight away. 90
So the restraint was justified.

Miles is a case in which this factor affected the length of the restraint of
trade considered enforceable. 91 Hodgson JA thought that, with no documents
to assist him, Miles was unlikely to recall much detail of the confidential
information after 14 months, so a longer period of restraint seemed unreas-
sonable, up to 30 months, especially if it prevented him from dealing with all

86 [2010] NSWSC 790 (23 July 2010) [71] (Ball J).
87 See, eg, Woolworths Ltd v Olson [2004] NSWCA 372 (6 October 2004) [67] (Mason P);
Harlow Property Consultants Pty Ltd v Byford [2005] NSWSC 658 (6 July 2005) [36]
(White J); Liberty Financial Pty Ltd v Scott [No 4] (2005) 11 VR 629; Portal Software Interna-
tional Pty Ltd v Bodsworth [2005] NSWSC 1179 (22 November 2005).
88 Littlewoods Organisation Ltd v Harris [1977] 1 WLR 1472, 1479, quoted in Cactus Imaging
Pty Ltd v Peters (2006) 71 NSWLR 9, 14–15 [13] (Brereton J). See also John Fairfax Publica-
the member firms. However, Handley AJA felt he was unlikely to forget. He supported the longer period of restraint.

Most relevantly, enforcement of the restraint of trade — or the injunction remedy generally — can be mindful of the ‘innovation threshold’ for the protection of information. Time can ensure the rival does not steal an unfair advantage, or head start, so preserving the employer’s first-mover advantages. The aim is to prevent the employee exploiting the shortcut to the information she has obtained courtesy of the employer.

The employee can be restrained for the time it takes the information to lose its currency — in Miles to ‘become stale’. This limitation will be meaningful in those sectors where change occurs rapidly. In the printing industry case, *Cactus Imaging Pty Ltd v Peters* (‘Cactus Imaging’), Brereton J applied this consideration to uphold a restraint of 12 months: ‘Notwithstanding that prices might fluctuate frequently, pricing parameters and quoting strategies are of a more lasting nature’. Likewise, in *Metcash Ltd v Jardim [No 3]*, Ball J was not persuaded that the information about Metcash’s business plans for the sale of liquor in the IGA grocery chain would be quickly out of date. Contrastingly, in *Seven Network (Operations) Ltd v Warburton [No 2]*, Pembroke J declined to grant injunctive relief for the whole of the 12-month restraint period. He found that by January 2012 the transferring Warburton would not have known of Seven’s current arrangements. The knowledge he did have (about the terms the television station offered agents buying advertising space) would have been superseded. The judge observed:

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92 Ibid 20–1 [45].
93 Ibid 23 [63].
94 Richardson, above n 17, 155.
95 In the general law, this is the springboard doctrine: see Stewart, Griffith and Bannister, above n 17, 101–2 [4.8]. See also Tanya Aplin, ‘Recent Developments in Commercial Confidentiality’ (2010) 15 *Media and Arts Law Review* 274.
96 (2009) 201 IR 1, 16 [27] (Hodgson JA).
98 (2010) 273 ALR 407, 419 [53]; a finding accepted by the Court of Appeal in *Jardin v Metcash Ltd* (2011) 285 ALR 677, 697–9 [99]–[107] (Meagher JA). Likewise, in *Great Southern E-vents Pty Ltd v Peskops* [2007] ATPR ¶42-152, the court found the usefulness of the information had not ended.
99 (2011) 206 IR 450.
100 Ibid 474 [84].
as time passes, particularly in this industry, circumstances change, new rates and terms of trade are negotiated and revised, new deals are struck, information becomes progressively stale and recollection diminishes or becomes irrelevant.\textsuperscript{101}

Or the employee is restrained for the time it takes for the information to be discovered or developed independently. So in \textit{Del Casale}, Hodgson JA was comforted by an order for an injunction (against a breach of a non-disclosure restraint) that would not be permanent, just long enough to cover the period it would take a ‘determined and persistent trade rival’ to find out the same information.\textsuperscript{102} In \textit{Dais Studio Pty Ltd v Bullet Creative Pty Ltd}, the Federal Court was not persuaded of a restraint of trade period at all, because it would only take an employee 20–30 minutes to recreate the software code from memory — and between two days and a week from scratch.\textsuperscript{103} In \textit{Miles}, Handley AJA combined the two considerations: ‘There was no evidence in this case that the confidential information was likely to become obsolete or public knowledge’ before the period of the restraint expired.\textsuperscript{104}

Finally, though, the courts might look at time from the employee’s perspective. The courts have said they may not temper the employer’s rights to enforce the restraint, where they are valid, just because of the impact on the employee. For example, in \textit{John Fairfax Publications Pty Ltd v Birt}, Brereton J observed: ‘I do not think that sympathy for the position in which Mr Birt now finds himself can justify not enforcing the contractual rights of Fairfax Publications.’\textsuperscript{105} However, they are entitled to consider the public interest in determining that validity; also the balance of convenience when granting an interim injunction. Some decisions have shown an interest in whether the employee would be left with a livelihood.\textsuperscript{106} They might then ask whether the

\textsuperscript{101} Ibid 473 [79].

\textsuperscript{102} (2007) 73 IPR 326, 336 [44], quoting \textit{E Worsley & Co Ltd v Cooper} [1939] All ER 290, 308 (Morton J); see also Campbell JA: at 360 [156]. (As the period for which the Court found restraint would have been justified had passed, no substitute order for a fixed-term injunction was made: at 339 [63] (Hodgson JA).) This method of calculation is criticised for being uncertain, see Stewart, Griffith and Bannister, above n 17, 102 [4.8].

\textsuperscript{103} (2007) 165 FCR 92, 118 [69], 122 [78] (Jessup J).

\textsuperscript{104} (2009) 201 IR 1, 24 [65].

\textsuperscript{105} [2006] NSWSC 995 (25 September 2006) [49].

\textsuperscript{106} Particularly in weighing the balance of convenience when deciding whether to grant an interlocutory injunction. For example, in \textit{Reed Business Information v Seymour} [2010] NSWSC 790 (23 July 2010), in exercising its discretion to grant an interlocutory injunction, the court was also much concerned about the hardship to the employee if she was prevented from working for the new employer altogether: at [67] (Ball J).
restraint will ruin any prospect of the employee working with the new employer or whether indeed the length of the restraint will result in the employee being lost to the sector. The empirical research indicates that even a short period can have this effect. The courts should also be much more explicit in considering how these impacts on the employees affect the public interest.

IV CUSTOMER KNOWLEDGE IN THE DECISIONS

In this section the key legal concept is customer connection. In services sectors, such as financial and professional services, where customer relationships are valuable, it is often the foundation for claims. While the law has recognised the employer’s interest in customer connection as legitimate for a long time, it is curiously underdeveloped as a concept of knowledge. It is too important now to remain obscure. This paper endeavours to tease out the factors that the courts take into account when distinguishing the employer’s connection from the employee’s explicit, tacit and personal knowledge. The courts say they are mindful that a distinction should be made.

The research should gather a list of indicative factors for customer connection to parallel the factors which are taken into account when determining whether information is confidential to the employer. But first the decisions reveal an overlap between confidential information and customer information, certainly when we move past the concept of trade secrets to the other confidential information, in this regard about customers and how best to serve them. That means the discussion so far is relevant not only to production but also to customer knowledge. The two interests are connected. I argue that in deciding whether to protect the employer’s connection to customers, the courts should first seek evidence of confidential information about customers and customer service, before moving on to restrain the employee’s personal knowledge of and influence over customers. I argue that the concept of customer connection is more rigorous if it starts with a search for confidential information about customers. In my view, the employer’s claim has the most merit when the employee is exploiting such information.

However, the courts do still recognise customer connection as a legitimate interest that the employer may claim, even if the employee was not exposed to

107 See Marx, Strumsky and Fleming, above n 20, 887.
108 Miles is a case where they are regarded as overlapping: see (2009) 201 IR 1, 23 [61] (Handley AJA). See also Jardin v Metcash Ltd (2011) 285 ALR 677, 695 [91] (Campbell JA); Great Southern E-vents Pty Ltd v Peskops [2007] ATPR ¶42-152, 46 977 [25] (Hamilton J).
any confidential information. The courts are prepared to restrain the employee’s use post-employment of her personal knowledge of and influence over customers. The basis is not clear. If the employee waits until the employment has ended, she is not in breach of the duty of good faith and fidelity, or possible a fiduciary duty, for diverting opportunities to a competing business. Why can’t she use her knowledge to compete? The research searches the decisions for factors that distinguish the knowledge the employee contributes from the knowledge she acquires because of the employer.

A The Employer’s Explicit Customer Knowledge

The analysis begins with the customer knowledge the courts do treat as the employer’s confidential information. Just because they are personal service sectors rather than high technology industries, the value of such information should not be discounted. Nevertheless, it needs to meet the standards for confidential information. In principle, this has received recognition in the cases. In Hartleys Ltd v Martin, Gillard J recalled the observation of Kitto J in the High Court:

The knowledge which, because its use may deprive the employer of the business connection which he is entitled to preserve as his own, he may require his employee to abstain from using, is objective knowledge of customers, their peculiarities, their credit and so forth.

Objective knowledge is explicit. It can be specified with precision. If it is confidential too, then it is not commonplace.

That knowledge can be about supply to customers. As noted above, successful sales techniques are valuable knowledge. But only some of that


110 As was found to be the case in Hodgson v Amcor Ltd [2012] VSC 94 (20 March 2012) [1511]–[1512], [1537] (Vickery J). The argument has been made that the restraint discourages the employee from making preparations to woo the customers away once the employment has ended. Really, it would be fairer to prove the preparations.


knowledge is specific to the firm. It might be a new service the employer is planning to supply. In some sectors, fashion for instance, suppliers vie for the customers’ attention as they look for novelty and difference. In very competitive sectors, the knowledge can be specific information about the employer’s pricing policies or delivery schedules. The information might even enable a competitor to make an offer to customers that undercuts a tender bid or a sales pitch. The value of this explicit knowledge receives recognition in the cases. For instance, in *Cactus Imaging*, counsel narrowed the claim to the knowledge of how to cost and schedule printing jobs for maximum effect. On the other hand, the knowledge might be too loose and commonplace to qualify and again this is vital to the line being properly drawn. For example, knowledge of how to sell mortgage loans to low income buyers or to manage investment of superannuation assets for well-off clients was not regarded as unique to one firm in the financial services sector. Such knowledge might accumulate with experience, rather than be set out publicly in textbooks and manuals, but it is still available throughout the industry.

The employer’s information can be about demand from customers. The knowledge of demographics (which age and gender groups patronise the cinema for example) is likely to be useful industry knowledge. Still, not all customers are readily accessible in these ways — especially not regarding their connection to a particular service. It can start with the names and addresses. Some customer lists lack confidentiality because the information is to be found in the public domain. The database is easily compiled. Or the identity of the few customers is common knowledge in the industry. In *Tullett Prebon (Australia) Pty Ltd v Purcell*, the Court observed that the brokers in the industry were all well aware of the identity of the traders in the market.117

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Some lists do qualify for protection. What’s more, inside knowledge of the identities and preferences enables the competitor to save a lot of work targeting the most receptive and remunerative customers, wealthy collectors for instance. The knowledge gives the competition the ability to predict which customers will respond most favourably to a new service — so much service success is based on building a relationship and anticipating the customers’ needs. That knowledge can be built systematically, like the customer video hire histories in *Blockbuster Australia Pty Ltd v Karioi Pty Ltd*. On the other hand, it might depend on cultivating personal contacts with customers. In *Cactus Imaging*, it was not only which products appealed to the customers, but how they liked to be treated, their needs and idiosyncrasies.

B The Employee’s Explicit, Tacit and Personal Knowledge

In extending the employer’s control beyond confidential information, the law is recognising that there is something personal about the employee’s knowledge of customers which is driving the demand for the restraint. The courts should identify the essence of this personal knowledge that the employer is entitled to control.

Paradoxically, they should begin with a presumption that customers make a self-interested judgement about the services they consume. The employee does not have personal knowledge and influence. This actually is an argument against the need to apply a restraint. In this regard, they look for what enhances the service and the crucial element might be personal or it might not. Professional services provide a good example of the different judgements customers make. Some patients value the individual doctor–patient relationship highly; but others are more interested in the price and accessibility of the service, including features like bulk billing and open all hours.

In some cases the customers clearly choose the firm. If it is the nature of the firm that attracts them, we would not expect the customers to move with the employee. They should be able to walk into the firm the next day and get the same service, whichever employee is serving them. Thus, brand works for some service providers. Traditionally this is because the brand signifies the

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knowledge needed to provide services competently and consistently. In more intangible markets, luxury services perhaps, the customers value the sheer association with the firm; the handbag with a label for example. So the employer is likely to retain the goodwill of customers.

A recent case about legal services, *Stacks/Taree Pty Ltd v Marshall [No 2]*, is a revealing decision on this point. Here, the Court discounted the employee solicitor’s pull on clients in the local business community. With Marshall’s departure, the practice would still have been expected to attract clients, not in this case because it was a large corporate firm run on management lines, but because of its reputation or brand name as a family firm. Therefore, the Court took the view that a restraint on competition with the firm was excessive protection. The employee was not competitive. Yet it remained disposed to enforce the restraint against solicitation of the clients with whom Marshall had worked.

However, on the other hand, if some of the customers do want to move with the employee, the courts should acknowledge that the employee has knowledge the customers want. Currently, the courts seem very ready to attribute a personal influence to the employee, but at the same time they do not really value the employee’s contribution to it. The employee is said to gain a hold or sway over the customers, or the customers place their trust and confidence in her, so much so that she ‘automatically carries the customer with [her] in [her] pocket.’

This can tend to suggest the customers have become confused and will realise in time that it is the employer they value. This statement is revealing:

because the employee has in effect represented the employer from the customer’s perspective … [the customer connection] might at least temporarily appear attached to the employee, but in truth belongs to the employer.

This may be selling the customers short as well as the employees. In *Seven Network (Operations) Ltd v Warburton [No 2]*, Pembroke J observed:

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122 Ibid [91] (McDougall J).


The customers are Seven's not Mr Warburton's. They will go wherever they receive the best terms. This is not the sort of industry where senior executives like Mr Warburton carry their employer's customers in their back pocket.125

We get a better sense of what is going on when we appreciate the value of personal relationships with customers in certain sectors. In Cactus Imaging, Brereton J found that, even though printing services are very price sensitive, relationships are important.126 And that relationship is not with the firm as such, its reputation for reliability and quality, but with individuals — ‘[t]hey have to like you.’127 Financial services are another example. Despite the money at stake, forging social connections matters to customers.

It is important not to mystify these connections, as if the employee gains some magical hold over the customers. In HRX Holdings Pty Ltd v Pearson, the Court cites with favour the witnesses who referred to the employee ‘sprinkling fairy dust’.128 Such a relationship is based on the employee’s knowledge — whether that be explicit, tacit or personal knowledge. If the employee’s value to customers is reason to protect the employer, the justification might be that the employee’s knowledge is ‘because of the employer’. I think this justification needs elaboration. I argue that more credit should be given to the employees’ own knowledge. The employee might have acquired knowledge of particular customers during the employment but it is not of a confidential nature. In particular the courts should be careful about drawing analogies, between the professional relationships in medicine or law, for instance, and the newer service sectors where the litigation is active. More to the point, the key knowledge will often not be the knowledge of that customer, but the employee’s more general knowledge of service to customers, such as the employee’s technical expertise, people skills and social networks.

There is some recognition of this in the decisions, but the research finds overall that the courts are too ready to say the employee has influence over customers just because of the association with the employer. Yet the courts have not articulated a theory that would explain how the employer has produced that knowledge. The employer’s contribution should be something more than giving the employee time with customers. Furthermore, if the

125 (2007) 206 IR 450, 475 [86]. Some cases have decided that employees have not made the connection because they were operating at too low level for the customers to take them seriously: see Harlow Property Consultants Pty Ltd v Byford [2005] NSWSC 658 (23 July 2005).
127 Ibid 18 [26] (Brereton J).
employer has made the real connection, the restraint should still be limited to the customers with whom the employee has dealt in that employment; there seems no justification for a non-compete that will put the employee out of action altogether.

C. The Reach of the Restraint

In the decisions, the employer’s contribution is characterised in several ways: the employer puts the employee in front of the customers; the employer has brought the employee into contact with the customers; the employee was the human face or persona of the employer; or the employee was ideally positioned by the employer to develop the relationships.\(^{129}\)

At its barest, the formulations suggest that all the employer has to do is give the employee the time to learn about the customers. To recall Suseno et al above, the courts might be thinking that the employer is doing more.\(^{130}\) The employer provides the employee with the social capital, the introductions and occasions on which to build that knowledge and develop the relationships.\(^{131}\) If that contribution is not enough, some employers provide resources to equip employees to deal with customers this way, such as expense accounts.

In making sense of the decisions, insight comes from the decisions in the sectors in which employees take the initiative — going out and getting the customers. In these circumstances, the employees might well have the support of the employer’s infrastructure, but the customers do not present themselves at the door. Yet the courts will still say the employee gains the knowledge because of the employer.

The decision in *Tullett Prebon (Australia) Pty Ltd v Purcell* gives one indication of the kind of employer contribution the courts might have in mind.\(^{132}\) The Court notes that the employer spent large sums of money to enable the employee to foster the connection with investors; the employee had an expense account of $5000 a month for entertaining.\(^{133}\) In this case, there seems to be an assumption the hospitality was influential — or perhaps it is just that the employer’s financial investment should be recognised? Justice

\(^{129}\) See, eg, *IceTV Pty Ltd v Ross* [2007] NSWSC 635 [59] (Brereton J).

\(^{130}\) See Suseno et al, above n 36. See also above nn 38–40 and accompanying text.

\(^{131}\) The efforts of the firm in *Stacks/Taree Pty Ltd v Marshall [No 2]* [2010] NSWSC 77 (1 March 2010), to promote the employee solicitor with particular clients, seem to be an example.

\(^{132}\) [2008] NSWSC 437 (23 April 2008).

\(^{133}\) Ibid [35] (McDougall J). In *Jardin v Metcash Ltd* (2011) 285 ALR 677, the Court of Appeal highlighted a similar finding: at 695 [92] (Meagher JA).
McDougall spoke of customer connection as ‘a legitimate asset of [the employer], paid for and maintained at its expense.’\textsuperscript{134}

It is hard to see how the knowledge can be attributed to the employer when the courts give the employer control over the employee’s connections with friends, acquaintances and family members who have become customers. In certain sectors, employers select employees for the customers they can bring to the firm from their social circles. That circle might be ethnicity or class; now it can be friends from a social network, who come in to a bar or cafe. These connections are now part of a broader phenomenon — the ‘soul at work’.\textsuperscript{135} Employers are encouraging employees to network on social sites, such as Facebook and LinkedIn (see below Part IVD), in order to build relationships with customers. The line between commerce and sociality is blurred.

The employer, who at one point expects the employee to network for the firm, might at another seek to apply a control to her sociality. This is bound to create tension. In \textit{Koops Martin Financial Services Pty Ltd v Reeves} (‘\textit{Koops Martin}’), a financial services case, the Court said the restraint would be supported if, in the course of employment, the employee gains personal knowledge of or influence over customers, ‘even if the customers include persons who are or have become the employee’s friends or acquaintances.’\textsuperscript{136} The position is actually strengthened if the employee’s duties involve extending the employer’s customer base.\textsuperscript{137} This suggests it is enough that the employer has paid the employee to build up the relationships.\textsuperscript{138}

The comparison of two decisions is instructive. The decision in \textit{Koops Martin} does not insist that the employee has had the benefit of the employer’s social capital, though ultimately, it must be said, this was a moot point.\textsuperscript{139} The employee’s friends and acquaintances formed a minority of the customers; most of the customers came from other businesses that the employer had acquired. In contrast, in \textit{Brilliant Lighting (Aust) Pty Ltd v Baillieu}, where the Supreme Court of Victoria declined to grant the employer injunctive relief, it was recognised that the employee came to the plaintiff’s employment with

\begin{enumerate}
\item Tullett Prebon (Australia) Pty Ltd v Purcell [2008] NSWSC 437 (23 April 2008) [36].
\item See generally Franco ‘Bifo’ Berardi, \textit{The Soul At Work: From Alienation to Autonomy} (Semiotext(e), 2009); Melissa Gregg, \textit{Work’s Intimacy} (Polity Press, 2011).
\item [2006] NSWSC 449 (29 May 2006) [43] (Brereton J).
\item Ibid [44].
\item Stone, above n 3, regards this as an antiquated master and servant approach to employment: at 141.
\item [2006] NSWSC 449 (29 May 2006) [43]–[52] (Brereton J).
\end{enumerate}
substantial customers of his own or already known to him (he deposed some 95 per cent).140 Unfortunately, it is not possible to determine whether this is a telling factor in the decline of injunctive relief. Finally, the Court was saved a hard choice by Baillieu’s willingness to give undertakings not to solicit old customers.141

The courts have recognised circumstances in which the employer does not capture the employee’s success with customers. In Linwar Securities Pty Ltd v Savage,142 the Court found that the business analyst, Savage, developed his own reputation for research. He prepared reports containing information and advice relating to publicly-listed companies, which were made available to superannuation fund managers. A fact in favour of this finding was Savage’s back-office position. He had no particular clients for whom he worked. While his work was highly regarded, he did not develop personal relationships with clients.143 It could even be argued that this employee’s expert knowledge was production rather than customer knowledge.

In the recent decision of Wallis Nominees (Computing) Pty Ltd v Pickett, the Supreme Court of Victoria found that, even though he did have contact with clients, the employee’s position did not provide a basis to develop a personal relationship with clients.144 So the employee was not to be restrained from going to work, in this case, for one of the employer’s clients. At all times the employer had directed its marketing skills to enhancing its own name and presence. The services it provided were project and team based and it would move the software consultants between jobs as required. The employee was not placed in a position where he could exert control over the client’s custom. Furthermore, to recall the earlier query about the influence of the employee, here the Court found that the client (Grocon) had made its own decision about restructuring and bringing the services in-house.

So what seems to matter is that the relationships have developed. The courts tend to regard these relationships as the employer’s asset, not the

140 [2004] VSC 248 (25 June 2004) [16] (Hollingworth J). The Court also noted that the employee was hired due to his previous experience as a salesman and he was given no training for the job by the employer: at [16].

141 Ibid [25]–[26]. In Foster v Galea [2008] VSC 317 (22 August 2008), the factor certainly does not tell in the employee’s favour, for here she was paid a lump sum expressly to bring the customers to the employer: at [1] (Byrne J).

142 [2006] NSWSC 786 (7 August 2006).

143 Likewise, where the employee has dealt with the customers through subordinates, the courts have said there is no connection: see John Fairfax Publications Pty Ltd v Birt [2006] NSWSC 995 (25 September 2006) [31] (Brereton J).

144 [2012] VSC 82 (14 March 2012) [63]–[64] (Sifris J).
employee’s. In these relationships, perversely, the possession of knowledge actually tells against the employee. That knowledge might be technical. In *Hanna v OAMPS Insurance Brokers Ltd*, the Court observed: ‘The evidence was sufficient to found a conclusion that Mr Hanna was a highly competent and deeply experienced broker likely to create a real connection with clients if he dealt with them by reason of those attributes’.145 Hanna had been an insurance broker for 30 years.

That knowledge might be dispositional. In *Linwar Securities Pty Ltd v Savage*, the Court likened Savage to a skilled tailor from a 1920 United Kingdom case.146 The tailor’s knowledge is explicit knowledge of the techniques of making clothes; some tacit too, yet it is also knowledge of what clients like, their insecurities and conceits about their appearance. Crucially, Savage is also likened to the ship’s captain in a 1970 Queensland case, who attracted tourists to holiday cruises: ‘the preference of tourists for a particular captain … created a personal property in him, not in his employers’.147 This was because the captain had knowledge of how to get customers and build up personal goodwill with them. Today, we would say the captain has ‘people skills’ or dispositional knowledge. In *Koops Martin*, the Court picked up the same issue. Significantly, for our purposes, the Court considered whether the employee’s influence could be attributed to the employee’s individual skill and persuasive manner — his ‘ingratiating personality’.148 The conclusion, though, is not favourable to the employee. The Court held there was very little authority for the proposition that the employer should not be protected in this situation.149 The Court’s language suggests the Court does not appreciate the nature of the employee’s knowledge. The customers value the employee, not just because she has knowledge of them, but because she knows how to deal

149 *Koops Martin* [2006] NSWSC 449 (29 May 2006) [38]–[40] (Brereton J). The Court discounts United States and United Kingdom authorities that do attribute such influence to the employee, such as truck drivers with a ‘God-given, or self-cultivated, ingratiating personality’: at [39], quoting *Love v Miami Laundry Co*, 160 So 32, 36 (Buford J) (Fla, 1935), or milk roundsmen who have a way with customers: at [40], citing *Home Counties Dairies Ltd v Skilton* [1970] 1 WLR 526, 530 (Harman LJ).
well with customers generally. Today we would call this emotional intelligence for example, rather than an ingratiating personality.

**D Remedies and the Role of Time**

If the courts still want to give the employer some control, the remedies offer scope to limit the impact on the employee. If we begin with the scope of activities that are to be controlled, a key compromise is to confine the restraint to the soliciting of customers with whom the employee has built personal relationships in the previous employment.\(^{150}\) Then the employee may start work with a competitor and a range of other activities remain permissible. At the new employment, the employee may make contact with customers of the old employer with whom she did not have personal dealings,\(^ {151}\) as well of course as with those who have not been customers of the old employer at all or who have already left the old employer for another supplier.\(^ {152}\) Only if the courts wished to reward the employer accurately for the provision of social capital would the employee be restrained from dealing with the employer’s other customers.\(^ {153}\) And certainly only if the courts wished to reward the employer for the provision of training would the restraint be allowed to prevent any competition for customers. But this latter policy would be far too unreliable because it would undermine the employee’s own investment.

\(^{150}\) If the restraint is couched in wider terms, in New South Wales, the court has the power to read it down: see *Ross v IceTV Pty Ltd* [2010] NSWCA 272 (22 October 2010) [123]–[125] (Sackville AJA). In other states, the court might be presented with a laddered provision, with a non-solicitation clause separate from the wider restraints on activities.

\(^{151}\) See, eg, *Investment Managers Pty Ltd v Callen* [2006] NSWSC 452 (26 April 2006); *Roberts v L Quay Futures Brokers Pty Ltd* [2004] NSWSC 572 (17 June 2004). Unless the employee makes use of a confidential customer list to contact those other customers.

\(^{152}\) See *IceTV Pty Ltd v Ross* [2009] NSWSC 980 (18 September 2009), where the Court restrained the employees from dealing with a prospective customer of their old employer. The employees had been negotiating with the customer for the employer. The Court said ‘[t]his is not a case of a salesman having visited a large number of prospects but a case of senior personnel dealing with other senior personnel on deals potentially very significant to IceTV’: at [87] (Rein J). In *OAMPS Gault Armstrong Pty Ltd v Glover* [2012] NSWSC 1175 (2 October 2012) [41], Nicholas J goes further when he speaks of the defendants’ ‘force of attraction in the marine insurance industry’ justifying a clause restraining them from employment as brokers.

\(^{153}\) See *Cactus Imaging* (2006) 71 NSWLR 9, 19–20 [33], where Brereton J took the view that it is reasonable to restrain the employee’s dealings with other customers because the employer has endowed the employee with a prominent senior state-wide position. But this appointment, presumably because the employee was talented, is a very indirect provision of social capital.
Still contested is the freedom to accept instructions from former customers who initiate contact with the departed employee. If only active soliciting is to be restrained, proof of the soliciting is needed to obtain an injunction. Sympathetic to the employer, the court might anticipate problems of proof, for example where the employee deals with old customers through other employees at the new employer’s firm. In Hanna v OAMPS Insurance Brokers Ltd, the President of the New South Wales Court of Appeal, Justice Allsop, upheld as reasonable a clause restraining the employee from dealing with any customers he had dealt with previously. He said:

The addition of ‘dealing’ to ‘soliciting’ has the legitimate purpose of making unnecessary the fine distinctions as to what is soliciting and what is mere dealing, and removing the temptation for subterfuge and pretence.

Yet the restraint will then catch situations where the customers are seeking out the employee for preference: for example, where the customers learn that the employee is working somewhere else. With the use of social media websites at work, it becomes easier for customers to learn that the employee has moved to another employer. Lately, partner in the law firm Herbert Smith Freehills, Kate Jenkins was quoted in a newspaper article as saying the social media website LinkedIn poses particular issues for employers as it blurs the lines between work and personal activities. A simple update on the site could tell hundreds of customers of the employee’s new role. Jenkins is advocating that employees be restrained in these situations.

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157 Ibid 430 [34].

158 Koops Martin [2006] NSWSC 449 (29 May 2006) [83]–[85] (Brereton J). This restricts the customers’ freedom of choice, a criticism made of restraints by Joellen Riley: see Riley, above n 14. This might be especially sensitive in the case of legal services, where the countervailing principle is meant to be strong — that clients should be free to choose their lawyer. Other legal services cases in which the non-solicitation restraint is upheld include Gibney & Gunson Inc v Stewart [2009] NSWSC 855 (13 August 2009); Cosoff Cadmore Knox v Rydon [2007] NSWSC 198 (2 March 2007). Cf Bromhead v Graham [2007] NSWSC 609 (14 June 2007).

159 Ben Schneiders, ‘LinkedIn Blurring Demarcation Lines’, The Age (Melbourne), 1 March 2012, 3.
Ultimately, even a non-solicitation clause limits the customers' freedom to choose. If the restraint on solicitation (or other contact) is upheld, time then becomes the vital regulator. Time is said to heal too in the case of customer connection. In this case, the relevant time may be the time it takes a reasonably competent replacement employee to show their effectiveness and establish a rapport with the customers. In *Cactus Imaging*, Brereton J did a calculation based on the frequency of contacts with the employer and the timing of printing service updates.\(^{160}\) In that time, the customers will come to realise that the employer can still provide the service; it was not dependent on the employee.

Another measure, though less favoured perhaps, is the time it takes for the employee's hold to weaken. In *Hanna v OAMPS Insurance Brokers Ltd*, the Court of Appeal preferred this test of connection.\(^{161}\) President Allsop (with whom Hodgson JA and Handley AJA agreed) said the appropriate approach in this case is the time it would take to sever the relationship built up between Mr Hanna and the clients with which he had dealt. On this basis, it upheld the decision of the primary judge to enforce a period of 12 months, which would substantially ensure that OAMPS was able to undertake renewal of all the insurance policies of the relevant clients without the competition of Mr Hanna in his new employment. The preference for the second test suggests that the Court realised that the influence stemmed from the strength of the employee's own knowledge.\(^{162}\) It was reasonable to prevent the employee from exerting that influence for as long as it took until the connection breaks.\(^{163}\)


\(^{161}\) (2010) 202 IR 420.

\(^{162}\) Ibid 430 [41] (Allsop P). In *Philip Webb Pty Ltd v Babalis* (Unreported, Supreme Court of Victoria, Byrne J, 28 July 2006) the Court refused the employer an application to restrain the employee from soliciting former clients for nine months, with the comment that: 'I am not satisfied that the good will which attaches to a real estate salesman enures for nine months. There is just no evidence as to this': at [8].

\(^{163}\) For Robson AJA, upholding a three-year non-solicitation restraint on an accountant, the connection is formed by the 'degree of knowledge of the client's affairs that would avoid the client having to explain and disclose its financial structure and history, something that it would have to disclose if it retained somebody unaware of its circumstances': see *Birdanco Nominees Pty Ltd v Money* [2012] VSCA 64 (4 April 2012) [83]. This justification is at least based on the employee's explicit rather than tacit or dispositional knowledge. But there was no suggestion that it is confidential information.
V CONCLUSIONS

The article has researched over 100 decisions to enforce restraints of trade. In seeking to give the burgeoning decision-making form and substance, the analysis has applied concepts of knowledge that the social sciences have developed. These concepts provide a sophisticated sense of the different types of production and customer knowledge and in particular the types that should be apportioned to the employer or employee in these disputes. While not denying the employer’s information, the concepts recognise the value of the knowledge that employees acquire, carry and apply as cognitive labour in a knowledge economy.

The research found that the courts are endeavouring to work with concepts of knowledge to make their decisions on the limits of the enforceability of the employer’s claims against the employee. The use of these concepts is a constructive and principled approach situated between the extremes of freedom of contract (which would see nearly all of the employers’ claims upheld) and freedom of trade (which would see all of the employers’ claims denied).

The analysis divides the decisions between production and customer knowledge. It finds that the courts make a distinction between the confidential information protected by the general law and by the restraint. The general law cases display rigour in requiring the information to be specific and to be scarce — that is, difficult to acquire or duplicate. The danger is that the courts will relax those standards to give the employer the benefit of the restraint. That is the message but the research finds that in the individual decisions the courts on the whole are maintaining vigilance in distinguishing stock-in-trade industry knowledge from confidential information. The problem is the response to the merger of a piece of that information with the employee’s knowledge. The article recommends that the courts work harder to protect that information without preventing the employee from continuing. It locates decisions where moderation was practised both in limiting the activities restrained and the duration of the restraint.

The analysis finds that customer connection is the biggest source of mystery. The decisions are soundest when they apply the rigours of confidential information to the claims of the employer. When there is no confidential information to claim, the analysis is highly sceptical of the employer’s claim. The courts need to articulate the basis on which the employee’s knowledge should be attributed to the employer. This requires some proof of the employer’s capital, which currently is sorely lacking. At present, it seems entirely optional whether the court identifies some factors or not. In particular, the decisions should acknowledge that it is not just particulars of individual
customers that give the employee knowledge but the employee's own explicit, tacit and personal knowledge of how to deal with customers — the employee's talent. If the courts wish to give the employer credit for the knowledge of particular customers, then the restraints should be strictly limited to the active solicitation of those customers, as well as limited in time.
VI Appendix

2012

Clear Wealth Pty Ltd v Kwong [No 2] [2012] NSWSC 1233 (5 October 2012)
OAMPS Gault Armstrong Pty Ltd v Glover [2012] NSWSC 1175 (2 October 2012)

Wilson HTM Investment Group Ltd v Pagliaro [2012] NSWSC 1068 (10 September 2012)

Pearson v HRX Holdings Pty Ltd [2012] FCAFC 111 (17 August 2012)
Birdanco Nominees Pty Ltd v Money [2012] VSCA 64 (4 April 2012)
Wallis Nominees (Computing) Pty Ltd v Pickett [2012] VSC 82 (14 March 2012)

HRX Holdings Pty Ltd v Pearson [2012] FCA 161 (1 March 2012)

2011

Jardin v Metcash Ltd (2011) 285 ALR 677

Red Bull Australia Pty Ltd v Stacey (2011) 214 IR 299

Ecolab Pty Ltd v Garland [2011] NSWSC 1095 (14 September 2011)

Think: Education Services Pty Ltd v Lynch [2011] NSWSC 984 (29 August 2011)

Metx Holdings Pty Ltd v Simmac Pty Ltd [No 2] [2011] FCA 981 (25 August 2011)

Commercial & Accounting Services (Camden) Pty Ltd v Cummins (2011) 207 IR 351

Seven Network (Operations) Ltd v Warburton [No 2] (2011) 206 IR 450

Informax International Pty Ltd v Clarius Group Ltd (2011) 192 FCR 210

2010

Ross v IceTV Pty Ltd [2010] NSWCA 272 (22 October 2010)

Hanna v OAMPS Insurance Brokers Ltd (2010) 202 IR 420


Total RISC Technology Pty Ltd v Cannings [2010] NSWSC 1124 (24 September 2010)
Earth Force Personnel Pty Ltd v E A Negri Pty Ltd [2010] VSC 426 (22 September 2010)

Australian Insurance Holdings Pty Ltd v Chan (2010) 87 IPR 533

Allied Express Transport Pty Ltd v Mears [2010] NSWSC 1112 (17 September)

Reed Business Information v Seymour [2010] NSWSC 790 (23 July 2010)

BDO Group Investments (NSW-Vic) Pty Ltd v Ngo [2010] VSC 206 (21 May 2010)


Stacks/Taree Pty Ltd v Marshall [No 2] [2010] NSWSC 77 (1 March 2010)

Allison v BDO (NSW-Vic) Pty Ltd [2010] VSC 35 (11 February 2010)

Blackmagic Design Pty Ltd v Overliese (2010) 84 IPR 505

2009

Blockbuster Australia Pty Ltd v Karioi Pty Ltd [2009] NSWSC 1089 (16 October 2009)

Manildra Laboratories Pty Ltd v Campbell [2009] NSWSC 987 (23 September 2009)


Gibney & Gunson Inc v Stewart [2009] NSWSC 855 (13 August 2009)

Marlov Pty Ltd v Col [2009] NSWSC 501 (5 June 2009)

Northern Tablelands Insurance Brokers Ltd v Howell (2009) 184 IR 307

Miles v Genesys Wealth Advisers Ltd (2009) 201 IR 1

GlaxoSmithKline Australia Pty Ltd v Ritchie [No 2] (2009) 22 VR 482

2008

Transpacific Industries Pty Ltd v Whelan [2008] VSC 403 (7 October 2008)

Cerilian Pty Ltd v Fraser [2008] NSWSC 1016 (29 August 2008)

Foster v Galea [2008] VSC 317 (22 August 2008)

Tullett Prebon (Australia) Pty Ltd v Purcell (2008) 175 IR 414

GlaxoSmithKline Australia Pty Ltd v Ritchie (2008) 77 IPR 306
Tullett Prebon (Australia) Pty Ltd v Purcell [2008] NSWSC 437 (23 April 2008).

BearingPoint Australia Pty Ltd v Hillard [2008] VSC 115 (18 April 2008)
Roberts Research Group Pty Ltd v Pyra [2008] VSC 16 (11 February 2008)

2007
Dais Studio Pty Ltd v Buller Creative Pty Ltd [2007] 165 FCR 92
Pinnacle Hospitality People Pty Ltd v Ramasamy [2007] VSC 433 (8 November 2007)
Springboard Consulting Group Pty Ltd v Cunningham [2007] VSC 447 (10 October 2007)
Del Casale v Artedomus (Aust) Pty Ltd [2007] 73 IPR 326
IceTV Pty Ltd v Ross [2007] NSWSC 635 (3 July 2007)
Bromhead v Graham [2007] NSWSC 609 (14 June 2007)
Great Southern E-vents Pty Ltd v Peskops [2007] ATPR ¶42-152
Bluescope Steel Ltd v Kelly (2007) 72 IPR 289
Cosoff Cudmore Knox v Rydon [2007] NSWSC 198 (2 March 2007)
Brink’s Australia Pty Ltd v Kane [2007] NSWSC 62 (25 January 2007)
Woolworths Ltd v Banks [2007] NSWSC 45 (24 January 2007)

2006
Meridian Vat Reclaim Aust Pty Ltd v Agius [2006] VSC 503 (21 December 2006)
Lyreco Pty Ltd v Schoolworks Australia Pty Ltd [2006] NSWSC 1184 (20 October 2006)
Russ Australia Pty Ltd v Benny [2006] NSWSC 1118 (19 October 2006)
Husqvarna Construction Products Australia Pty Ltd v McLean [2006] VSC 381 (9 October 2006)  
Pathfinder Systems Australia Pty Ltd v Austact Pty Ltd [2006] NSWSC 892 (23 August 2006)  
Linwar Securities Pty Ltd v Savage [2006] NSWSC 786 (7 August 2006)  
Reeves v Koops Martin Financial Services Pty Ltd [2006] NSWCA 221 (1 August 2006)  
Cactus Imaging Pty Ltd v Peters (2006) 71 NSWLR 9  
Koops Martin Financial Services Pty Ltd v Reeves [2006] NSWSC 449 (29 May 2006)  
Investment Managers Pty Ltd v Cullen [2006] NSWSC 452 (26 April 2006)  
A T Kearney Australia Pty Ltd v Crepaldi [2006] NSWSC 23 (10 February 2006)

2005

Portal Software International Pty Ltd v Bodsworth [2005] NSWSC 1179 (22 November 2005)  
Courtenay Polymers Pty Ltd v Deang [2005] VSC 318 (11 August 2005)  
Aussie Home Loans Ltd v X Inc Services Pty Ltd [2005] ATPR ¶42-060 11 VR 629  

2004

Roberts v L Quay Futures Brokers Pty Ltd [2004] NSWSC 572 (17 June 2004)  
Auswide Home Improvements Pty Ltd v IFO Pty Ltd [2004] NSWSC 201 (24 March 2004)
2003

*I F Asia Pacific Pty Ltd v Galbally* (2003) 59 IPR 43


2002

*Hartleys Ltd v Martin* [2002] VSC 301 (7 August 2002)

Other

*Maggbury Pty Ltd v Hafele Australia Pty Ltd* (2001) 210 CLR 181

*Two Lands Services Pty Ltd v Cave* [2000] NSWSC 14 (10 February 2000)

*Comcopy Pty Ltd v Chadwick* [1999] VSC 31 (15 February 1999)

*Wright v Gasweld Ltd* (1999) 22 NSWLR 317


*FSS Travel and Leisure Systems Ltd v Johnson* [1998] IRLR 382

*Kone Elevators Pty Ltd v McNay [No 2]* [1997] Aust Contract Reports 90-080

*Broadwater Taxation and Investment Services Pty Ltd v Hendriks* (1993) 51 IR 221

*Faccenda Chicken Ltd v Fowler* [1987] 1 Ch 117

*Faccenda Chicken Ltd v Fowler* [1985] 1 All ER 724

*Metrans Pty Ltd v Courtney-Smith* (1983) 8 IR 379

*Deta Nominees Pty Ltd v Viscount Plastic Products Pty Ltd* [1979] VR 167

*Aloha Shangri-La Atlas Cruises Pty Ltd v Gaven* [1970] Qd R 438

*Lindner v Murdock’s Garage* (1950) 83 CLR 628

*Attwood v Lamont* [1920] 3 KB 571