



# A Provocative Idea That Turns Out to be Wrong



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A review of [\*Talent Wants to Be Free: Why We Should Learn to Love Leaks, Raids, and Free Riding\*](#), by Prof. Orly Lobel



When I first learned about this book, I was intrigued mostly by the subtitle: not only does talent want to be free (surprise!), but companies that pay the talent should let them go without worrying about protecting their secrets. Now that was a bold and counterintuitive proposal that justified a closer look.

As I'll explain below, this work fails spectacularly to prove its hypothesis. But so do a lot of books that comment on social issues. Why should the IP community care about this one? In part that's because of its focus on where creativity most often begins: in the relationship between a

company and its employees. But it's also because the book is beginning to be approvingly cited not just by the popular press, but also by some IP scholars, who may not have read through it with sufficient skepticism.

A very troublesome flaw in *Talent Wants to be Free* is that the author frequently conflates non-compete agreements with two other very common forms of employee restraints: confidentiality (or nondisclosure) agreements and invention assignments. As most practitioners can readily appreciate, there is a world of difference between the first one and the other two, and they typically are not joined in a single document. Non-competes stop someone from taking a job with a competitor, and their use is restricted in many places and illegal in a few, like California.

Nondisclosure contracts (NDAs), however, are universally seen as appropriate to define the scope of a confidential relationship, and normally cause no problems with later employment. Similarly, assignment agreements provide clarity of expectation for employers and their inventive employees. Both NDAs and assignment agreements generally leave employees free to leave and work wherever they want. But Prof. Lobel regularly mashes together all three types of agreements as "human capital controls" when arguing that they don't work and that businesses should stop using them.

In this sense, the book misses an opportunity to focus on the distinctive and serious problems of non-compete agreements, which truly can "restrict careers and connections that are born between people." But it's not right to put NDAs and assignments in the same box with non-competes. The heavy, somewhat clumsy prohibition against future employment of a non-compete is different not only in its effect on the employee but also in the greater challenge of justifying it.

Confidentiality agreements, in contrast, merely restrain use of special information that the employee gets access to by virtue of a trusted relationship. By enforcing such agreements, the law promotes a basic principle of commercial ethics, and the burden on the employee is relatively

light. (It is surprising, by the way, that Prof. Lobel never mentions this ethical mooring of trade secret law, or the U.S. Supreme Court case, [\*Kewanee v. Bicron\*](#), 416 U.S. 470 (1974), that explains it.) The same is true for the normal invention assignment, which simply clarifies by contract the idea that creative people who are paid for what they do should leave their specific creations with their employer when they go, while remaining free to keep creating for themselves or others.

The principles involved here are not just academic abstractions. Trade secrets are today the most widely used form of intellectual property, and are critically important to many industries. Consider, for example, a 2009 survey conducted by the National Science Foundation and Census Bureau, which showed that, among companies that engage in substantial research and development activity, secrecy is the leading method of protecting competitive advantage, and for those classified as “R&D intensive” – who account for 67% of U.S. R&D expenditure – secrecy is viewed as the most important form of intellectual property, more than twice the level for invention patents. (The paper is available at [nsf.gov/statistics/infbrief/nsf12307/](http://nsf.gov/statistics/infbrief/nsf12307/).)

At the same time, a healthy information economy requires easy mobility of knowledge-workers. So in setting policy and enacting laws, a lot rides on whether we get that balance right. And that also means we have to be cautious and discriminating when we examine these competing interests and propose new approaches.

Prof. Lobel supports her case in part by attacking the so-called “inevitable disclosure” doctrine applied by some courts to bar competitive employment by someone who “knows too much” to be trusted to keep secrets. And indeed some of the cases seem to have produced bad outcomes. But by using anecdotes, and describing the facts almost exclusively from the employee’s point of view, she sacrifices objectivity and nuance. When the team captain, with the playbook in his head, wants to join the rival team, there may be a legitimate need for courts to intervene. In the vast majority of these “inevitable disclosure” cases, however, the court denies an injunction, or imposes a

limitation like working in another department of the new company for a couple of months. Orders that flatly prevent competitive employment are rare, and even then are usually temporary and require compensation to the employee.

(For a detailed review of all the relevant inevitable disclosure cases, sorting them by their varied facts and outcomes, see my treatise [\*Trade Secrets\*](#) at §7.02[2][b][ii].)

A similarly one-sided analysis of non-compete agreements detracts from the force of the author's argument. That's a shame, because while non-competes deserve healthy criticism, they aren't completely without justification. Although employers can rely exclusively on NDAs and trade secret law to protect their interests, litigation is messy and unpredictable, and the former employer typically has very little evidence to go on, since the employee planned his departure in secret.

So from the employer's point of view, the alternative of simply prohibiting competitive employment for a period of time looks pretty attractive. Yes, non-competes are a blunt instrument to provide protection for secrets, and that is why courts are skeptical and why some places like California don't allow them at all. But this represents a policy choice between competing, rational interests, not a realization of some transcendent truth about the evil of non-competes (which by the way are not, as Prof. Lobel claims they are, a "near universal feature of employment contracts").

The book also disappoints by relying on anecdotes and examples that turn out to be, well, unreliable. For example, the author cites IBM as a company that "defaults to control," supporting this claim with a single employee's description of the company's "internal communications mail system" that requires "millions" of specially marked envelopes, demonstrating "waste in oversecrecy." But the quote comes from a Wall Street Journal article published back in 1995. What does IBM do *now*? I checked, and learned that the envelopes were only used for the most top-secret "restricted" documents – in the hundreds, not millions – and that this practice stopped shortly after Lou

Gerstner became president, in 1993. So the 1995 statement turns out to have been both hyperbole and old news when it was first quoted. Over the last 20 years IBM has simplified its confidentiality controls, using electronic systems instead of paper, but without relaxing its focus on information security. And during that same period IBM distinguished itself as one of the nimblest, most successful technology companies in the world. This doesn't seem to fit with the author's hypothesis that "control" breeds underperformance.

Her treatment of Apple is similarly problematic. Apple is well known as one of the world's most secretive enterprises, but (despite certain problems with its Asian suppliers, which have nothing to do with Apple's secrecy) it also boasts a very satisfied and engaged work force, not to mention the world's largest market capitalization. Rather than confronting this apparent contradiction with her basic thesis, Prof. Lobel resorts to trivializing Apple's product release secrecy as a marketing gimmick.

Similarly, Procter & Gamble is singled out as a dinosaur that was obsessively paranoid about security. Here, Prof. Lobel relies on information provided by a journalist who in the 1990s had been in litigation with P&G over her investigative techniques. She is quoted for the assertion that P&G's "intimidation practices resulted in many talented P&G employees leaving the company to seek work elsewhere." But where's the proof that "excessive security" was the cause of P&G's stock decline in that period? In addition, the author simply assumes that all of this opened the eyes of management, who (we are led to believe) must have relaxed its information security program.

To support this assumption, she points to the well-known success of P&G's embrace of "open innovation" in sourcing more than half its products from outside the company. This analysis is wrong in at least two ways. First, the kind of "open" innovation employed by P&G (represented by its "Connect+Develop" program) is not free, and in fact can only exist thanks to secrecy laws and internal controls that support collaboration. Second, the introduction of Connect+Develop didn't happen because P&G's attention to

secrecy was diminished. To assume that it did is just an implausible hypothesis in dire need of evidence.

Finally, Prof. Lobel holds up Syntex Laboratories in Palo Alto as a company that succeeds while allowing free rein to its employees and interns. The most striking aspect of this example is that she uses the present tense to refer to Syntex. A quick check on the Internet shows that the company was acquired in 1994 by Roche, and ceased operations long ago. But the suggestion that a pharmaceutical company may have been relaxed in its attitude about protecting secrets was too tantalizing for me to resist doing some fact checking. It happens that I know the person who was General Counsel and in charge of these issues for Syntex in the 1980s and 1990s. So I got in touch with him, and he confirmed that the company in fact required NDAs and invention assignments from all employees, and took industry-standard steps to keep its research secret. So there's no story there either.

Beyond her shaky examples, the author also makes serious errors in describing the current state of the law on trade secrets. She attacks the concept of “negative know-how” – that is, the knowledge of what doesn't work – by claiming that it is “one of the strangest developments in trade secret law.” She supports this with a footnote to an article that says nothing at all about negative know-how. But worse, despite quoting Edison's famous statement (“I haven't failed; I've just found 10,000 ways that don't work.”), she fails to acknowledge that this kind of secret is exactly what protects all research and development. And she suggests that there is still a “battle” going on about whether the law should recognize it as protectable. That's just wrong; the battle, such as it was, over the protection of negative know-how was resolved more than 30 years ago, with the adoption of the Uniform Trade Secrets Act, recognizing “actual or potential” value.

Other references are merely misleading, as where she cites to cases invalidating NDAs under the same scope restrictions as non-competes. But these are exceedingly rare, and the one she refers to, [\*AMP v. Fleishhacker\*](#), 823 F.2d 1199 (7th Cir 1987), was decided almost 30 years ago.

But in my view the author's strangest claim comes when she tries to argue that California's prohibition against non-competes has paid off by causing fewer trade secret lawsuits to be filed in that state. Specifically, she says, "In practice, the number of trade secret disputes in the [Silicon] Valley has been relatively low in comparison to other competitive regions." That was a shock to see; from my own experience, I would confidently assume that the opposite is true.

But rather than rely on impressions, I turned to the only published articles that address trade secret litigation statistics: Ameling, et al, *A Statistical Analysis of Trade Secret Litigation in Federal Courts*, 45 *Gonzaga Law Review* 291 (2009) and *A Statistical Analysis of Trade Secret Litigation in State Courts*, 46 *Gonzaga Law Review* 57 (2010). There, we find that during the years 1995-2009 California ranked number one, with 16% of the country's state court trade secret filings (Texas came in second with 11%). Although there are no statistics reported separately for Silicon Valley as such, a very close proxy in the federal system is the Northern District of California. That district ranked second in the country for federal court trade secret filings in 2008, the most recent year reported. So California, while refusing to enforce non-competes, actually handles a lot more trade secret litigation than other places that allow them.

It's no surprise that "talent wants to be free." Of course it does. The promise of something new comes in the book's subtitle: "why we should learn to love leaks, raids and free riding." But unless the "we" refers to the rest of society cheering on the departing employees for contributing to knowledge spillovers (hardly a new idea), Prof. Lobel fails to make her case that the former employer should be happy about this. She tries to get there based on research showing that left-behind firms tend to cite the patents of those who left, and vice versa. But so what? It's a huge leap from that to conclude that the "sending employers" are better off as a result of the leaving.

Even more speculation is involved in her assertion that "[s]ending companies gain access and possible advantages in future dealings. [Thus,] both sides

benefit greatly from the movement.” That can be true in individual cases, but it’s hardly a universal, or even common, condition. And pointing to “alumni embrace” by law firms demonstrates the weakness of her generalization, because these are relationship-based businesses, incomparable to most product-based industries that rely heavily on secrecy. Mostly, the author relies on colorful metaphors like one about jungle vines growing back after being cut, asserting that “[i]n industry, new connections and communications grow to replace the lost employee.” Fine, but what about the lost competitive advantage from stolen secrets? There is just no evidence provided to support the idea that employers should re-think their attachment to proprietary information and “learn to love” leaks and free riding.

The employee-supportive perspective is important to consider, and there are certainly cases where our clients choose to “let it go” rather than fight. But it would be better to provide analysis of those exceptional cases, instead of pointing to them as the option of choice for modern, enlightened enterprises. Things are indeed different these days. But trade secrets are more important now, not less. Talent matters, but sometimes information matters more.

Prof. Lobel’s writing style is captivating, and some of her analysis can be insightful. While in my opinion this book failed to deliver what it promised, I hope that she decides to take on more directly the issues related to non-compete agreements, providing specific advice to employers on how to protect their information assets while intelligently motivating their knowledge-workers. After all, in an age when the term of employment is shrinking and mutual loyalty fading, the connection between the company and its “talent” is becoming more like that between the company and its vendors, customers, and competitors: everything is a collaboration, and all relationships have to be managed carefully for mutual benefit.