



Broker, Trader, Lawyer, Spy

The Secret World of Corporate Espionage

by Eamon Javers

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Take-Aways

- Wherever billions in revenue are at stake, corporate spies are sure to follow.
- A cottage industry of corporate spies has grown up to conduct surveillance on commercial rivals and screen potential hires.
- The spies' tactics range from aboveboard to clandestine.
- In extreme instances, corporate spies set up elaborate ruses to convince executives to turn over their companies' secrets.
- "Dumpster diving" is a time-honored tactic. Even shredded documents can be repaired.
- Some corporate investigations firms refuse to use unsavory tactics; for instance, Verbatim Advisory Services identifies itself to everyone it contacts for information.
- Allan Pinkerton, whose detectives tracked Jesse James, was the father of private spies.
- Satellites that take cheap, real-time photos are growing tools in the spy's arsenal.
- Many corporate spies received their training in the military or intelligence services.
- Such close ties raise questions about where borders lie between private and public spies.

Rating (10 is best)

Overall	Importance	Innovation	Style
9	6	9	9

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Relevance

What You Will Learn

In this Abstract, you will learn: 1) How corporate intelligence gathering has gained momentum, 2) How corporate spies obtain information and 3) How well-known companies have engaged in espionage over everything from steel to chocolate.

Recommendation

Your competitors might be rummaging through your trash, eavesdropping on your conversations or studying satellite images of your properties. Corporate espionage is more common than you might imagine, writes journalist Eamon Javers in this intriguing study of commercial spying. He offers an impressively thorough study of its past and present, and he doesn't shy away from the thorny issues this sort of activity raises. Javers' use of court documents and his interviews with industry players create a well-rounded look at this little-noticed corner of capitalism. *getAbstract* recommends this book to anyone who enjoys a good spy story as well as to users and targets of corporate espionage. Remember, just because you're paranoid doesn't mean they're not after you.

Abstract

Spooks for Hire

When billions are at stake, corporate spies are sure to follow. In recent years, a cottage industry of intelligence gatherers has emerged. Companies hire these spies to collect information about their competitors or to vet high-level hires. Many private agents received their training in the military or in the U.S. and British intelligence services. Their tactics run from simple "dumpster diving" to satellite monitoring. Sometimes, spies pose as executive recruiters or documentary filmmakers. In rare cases, they orchestrate elaborate stings.

In one such example, Mikhail Fridman, a Russian oligarch who owned the financial consortium Alfa Group, wanted possibly incriminating information on his rival, Leonid Reiman, and his conglomerate, IPOC. To get the data, Fridman's Washington lobbyists hired Diligence, an intelligence firm, to investigate Reiman. The dispute traveled to Bermuda, where the government had hired the local office of the KPMG accounting firm to investigate IPOC's ownership and infrastructure. Diligence agents sought KPMG staffers who would leak information. They targeted a couple of personality profiles: a partying, young male or an insecure, frumpy female. Ultimately, though, they co-opted British accountant Guy Enright, who did not fit their profiles. Instead of simply asking him to give or sell them data, Diligence's operatives appealed to his patriotism. Posing as British intelligence officers, they told Enright that the secret documents he was providing were crucial to national security. The lobbying firm paid Diligence \$25,000 a month plus costs for its trickery. Enright dutifully turned over the data, and Diligence rewarded him with a Rolex. He didn't realize he'd been duped until the secret sting later became public.

Spying isn't always so unsavory; sometimes it's just savvy reporting. Before its failure, Enron managers decided it could gain an advantage by determining when European power plants were about to close for scheduled maintenance. When the plants are down, power prices rise, creating an opportunity for energy traders. Diligence set out to gain this valuable data by hiring small planes to fly over German, French and Dutch power plants. The spies watched for telltale details, such as the dwindling stacks of coal or increasing

"Even as companies ceded their defense against criminals to government authorities, many found they still needed offense: intelligence-gathering operations against their competitors."

"The information from one wiretap, placed on the right phone at the right time, can be worth billions of dollars."

“Following a trained or canny subject can be complicated...it requires hiring a number of highly trained operatives, and such operatives are hard to find.”

“Spies often say that 90% of a good intelligence operation is open-source information – stuff that’s in the newspapers, in government documents, or easily available with a phone call or two.”

“Anyone with a computer can do a Google Maps search, pull up a picture of downtown Baghdad’s Green Zone, and admire the swimming pools and Blackhawk helicopters of the U.S. occupying force there.”

“Dumpster diving is one of the oldest tricks of the corporate-espionage trade.”

numbers of portable toilets in the yard – both indicative of a forthcoming closure. In some cases, firms turn surveillance tools on themselves. Wal-Mart studied satellite imagery of its most popular stores to find traits that might explain their high performance, like neighborhood characteristics and even which direction the entrances faced.

The Chocolate Wars

While aerial surveillance seems benign, corporate spies’ tricks can get dirty. Consider the battle between Swiss chocolatier Nestlé and American candy giant Mars. The bitter rivals engaged in a spy-versus-spy war, illustrated most dramatically by a 1990s battle over a chocolate-encased toy based on Disney’s *Lion King*. Whetstone Candy, a family firm in Florida, made the chocolate-coated trinkets for Nestlé. The product, called Nestlé Magic, was an instant hit. But Nestlé soon began hearing that people were complaining to safety regulators and to the U.S. Food and Drug Administration (FDA) about Nestlé Magic. Although the product hadn’t harmed any children, consumers were criticizing it as a safety hazard. An anonymous source, nicknamed “Deep Chocolate,” began dropping off critical documents at the U.S. Public Interest Research Group’s office.

Convinced Mars was behind the attacks, Nestlé hired a corporate espionage firm, Beckett Brown, to investigate. Initially its agents relied on time-tested dumpster diving, taking bags of garbage from Mars’ bins and, for months, replacing them with other bags of trash. At first, the results were only mundane or gross, but the detectives persevered. Mars executives shredded their documents, but put all the shreds in the same trash bag, so agents could reconstruct the pages. Finally, they found a contract for 10 rooms at a Maryland hotel. Setting up a Hollywood-style undercover operation was simple. Beckett Brown agents staked out the hotel’s bar and restaurant, arranging their seating to keep the Mars execs in earshot. Several Beckett Brown operatives were former Secret Service agents, all well trained in the skill of seeming to carry on a conversation while inconspicuously eavesdropping. The agents even bribed janitors to save the Mars execs’ trash. Despite all of Nestlé’s spying efforts, Mars’ lobbying of the FDA and other agencies succeeded, and Nestlé had to discontinue Magic at great cost. When Whetstone tried to issue its own chocolate-covered toy, Nestlé turned its intelligence efforts on its former supplier, which ultimately left the not-so-sweet candy business.

The Godfather of Corporate Espionage

Allan Pinkerton is the godfather of private spies. He started by chance in 1846. Pinkerton had moved from Scotland to a small town near Chicago, where he discovered a ring of counterfeiters and told the police. He continued to fight crime, infiltrating currency-counterfeiting rings and posing as a U.S. Post Office worker to find an employee who was stealing cash from envelopes. Soon, Pinkerton’s detectives were chasing Jesse James, Butch Cassidy and the Sundance Kid, and other robbers on the Western frontier. They nabbed stock scammers who wired phony information. By 1871, Pinkerton handled most of the investigative work for the U.S. Department of Justice on a \$50,000-a-year contract. His operation was a model for the Federal Bureau of Investigation (FBI) and the Secret Service. His tasks included exposing Confederate sympathizers during the Civil War. Once, a Pinkerton operative posed as a rebel sympathizer and caught a group that hoped to make trouble for the Union government in Maryland.

But Pinkerton’s public image soon plummeted. After the James gang killed two of his detectives, Pinkerton declared war. His men attacked James’ family farm, lobbing a grenade that injured the outlaw’s mother and eight-year-old half brother. The misguided attack hurt Pinkerton’s reputation and led Congress to pass the Anti-Pinkerton Act in

"In many cases, companies aren't spying into foreign countries, or even looking at competitors. They're spying on themselves."

"GeoEye-1 spends much of its time taking pictures for the CIA and the Department of Defense, and the rest taking pictures for paying clients, which have included Wal-Mart, commodities traders and commercial fishermen."

"Since the interests were so aligned, some observers began to wonder where Kroll ended and the U.S. intelligence community began."

"The presence of so many...CIA personnel on the payroll at BIA causes confusion as to whether the intelligence firm is actually an extension of the agency itself."

1893, barring the government from hiring private detectives. The FBI soon took over investigating lawbreakers where Pinkerton's agency left off, alleviating the need for businesses to hire private detectives to find criminals.

Corporate Espionage Comes of Age

In the decades that followed, corporate espionage gained a new role: ferreting out valuable secrets for private firms. In 1972, Jules Kroll, a spook-for-hire, set up shop in New York and expanded nationally by hiring former FBI agents for various projects. A former staffer for Robert Kennedy, Kroll started his consultancy to help printing companies save money. At the time, printing companies' often corrupt purchasing departments were known for buying materials from the highest bidders in exchange for kickbacks. Kroll pitched his ability to end that cost by making the process independent. His first client, Cadence Industries, owned Marvel Comics. Kroll soon built a reputation as an expert on business crime. When corporate raider Victor Posner launched a hostile takeover against conglomerate Foremost-McKesson, the target hired Kroll to dig into Posner's background. Kroll discovered that Posner had overstated the value of land he donated to a Miami college. Kroll turned his evidence over to authorities and, in 1983, the government indicted Posner on tax fraud. He gave up his hostile takeover of Foremost-McKesson.

Kroll's timing was impeccable. The 1980s era of corporate takeovers and boardroom shenanigans was just heating up. In 1982, investment bank Drexel Burnham Lambert was the lead underwriter of a "\$25 million debt offering" by Flight Transportation – but the charter airline was bogus. It didn't even own any airplanes. Embarrassed, Drexel Burnham and other investment banks turned to Kroll to vet their clients. Kroll became increasingly involved in international politics. His operatives discovered that Filipino dictator Ferdinand Marcos secretly owned several office buildings in Manhattan. After Kuwait's government hired Kroll to gather information about Saddam Hussein's assets, *Newsweek* labeled Kroll a "thug buster." Such foreign involvement raised queries about Kroll and other such agencies staffed by ex-soldiers and intelligence agents.

How Intertwined Are Public and Private Spies?

Several former Central Intelligence Agency (CIA) operatives founded Business Intelligence Advisors (BIA) after they resigned over the Bush-era stand on torture as an intelligence-gathering technique. Investors hire BIA to assess the truthfulness of corporate stock data. Its analysts listen to executives' phone briefings and scrutinize their responses to questions for signs of weasel words and half-truths. Their "deception detection" methods include attending CEOs' presentations to listen for suspicious signals, such as repeated use of the words "frankly" and "honestly." They underline any red flags for their clients. After analyzing one call, BIA concluded that the company's CEO "lacks confidence" and "avoids providing information." When clients hire BIA, they don't just get an agency with a CIA-like name; they get CIA staff, since the CIA lets some employees moonlight as private contractors and BIA hires them.

Corporate espionage provides a tempting career path for spies and analysts trained by the CIA and other government agencies. True, sifting through corporate dumpsters doesn't carry the same panache as hunting down Al Qaeda, but it pays better and the work is often less dangerous. CIA officers in mid-range government pay grades make \$43,000 to \$57,000 a year. Comparable private sector jobs pay \$120,000 to \$150,000. Once corporate spies are experienced, their pay can exceed \$200,000. In 2008, even the top CIA officials saw their wages limited to \$172,200.

“Predicting is one of a spy’s most valuable skills.”

“As manpower-intensive and expensive as professional surveillance can be, it doesn’t always work – or at least it doesn’t work as well as Hollywood movies would suggest.”

“You don’t have to bribe [people] to fire them up with dreams of money.”

Surveillance from the Sky

Dumpster diving is an old trick, but satellite imagery is a new one. A fleet of remarkably powerful satellites circles the Earth. In one example of the deep connections between government and private spies, the American firm GeoEye’s “flagship” satellite – the *GeoEye 1* – captures images the company sells to the Department of Defense and the CIA, as well as to businesses. The satellite speeds around the Earth at 17,000 miles an hour, so it can photograph any given spot on the planet “once every three days.” Such timely imagery helps commodities traders looking at developing countries. While official U.S. crop reports tend to be reliable, political considerations can color reports from developing nations. Real-time satellite photos let traders cut the spin. This data is surprisingly affordable; GeoEye sells images for \$7 a square kilometer, with a minimum buy of \$350.

Surveillance on Foot

The march of technology hasn’t made old-fashioned gumshoe work extinct, however. Consider Nick No-Name, a London spook and former officer in England’s special services who charges £1,200 to £1,600 a day to perform surveillance. He trails his executive subjects, taking photos and creating detailed reports for his clients. He listens in on conversations, sometimes using a laser microphone that can pick up voices through windows from as far away as 1,000 meters. Even so, surveillance is a hit-and-miss game. A subject might not leave his house for a weekend and trailing someone through traffic without being spotted can be difficult.

With so many pitfalls, trailing one person requires several trained operatives. The spies must blend into their surroundings, which can require quick thinking if, for instance, the subject goes into a black-tie banquet. In one case, a corporate manager called a job candidate and asked what he was doing. The prospective executive responded that he was on his way to a meeting, but the client knew from Nick No-Name’s surveillance that the candidate was on the golf course. The deception killed the job possibility. Nick plies his trade in Britain, where, as in the U.S., former intelligence agents dominate corporate espionage. In Germany, though, corporate spying is dicey. Memories of life under a “police state” leave Germans resistant to the idea of spying for hire.

Not all corporate spies are clandestine. Verbatim Advisory Group of Boston refuses to engage in deception, but still enjoys a thriving business advising hedge fund managers and other clients. Verbatim gathers data by interviewing people in the industries that interest its customers. For instance, its reporters phoned clients of the Arcelor Mittal steel company to find out what it was doing about high prices. When Arcelor announced it would close two blast furnaces, trading soared and shares rose a dollar. Other investors may have been surprised, but Verbatim’s clients were not. One hedge fund executive asked Verbatim to forecast Salesforce’s quarterly earnings. Verbatim’s analysts called Salesforce’s clients to ask if they planned to buy its new software despite the product’s lackluster reviews. The customers were more upbeat about the product than Wall Street expected, and earnings were better than anticipated. Verbatim’s analysts always identify themselves but, this time, corporate employees talked to them willingly because the analysts also provided valuable data about their competition and about Salesforce’s rates.

About the Author

Eamon Javers covers the White House and the economy for Politico. He was Washington correspondent for *BusinessWeek* magazine and frequently appears on network television.