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Dirty Little Secrets

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The best-kept secret in the world of theft is economic espionage. According to the recent Annual Report to Congress on Foreign Economic Collection and Industrial Espionage, American companies lose \$300 billion a year to economic espionage. This is equivalent to losing a company the size of General Electric each and every year. That makes economic espionage the most successful form of theft in America. Yet hardly anyone talks about economic espionage, and still fewer do anything about it. It is like some dirty little family secret about which everyone pretends to know nothing. Only it really isn't little; and it really isn't secret.

Economic espionage is so wildly successful because protection of intellectual assets is simply ignored. The government is otherwise occupied, and virtually no corporation has anyone tasked with protecting intellectual assets from espionage. Indeed, most corporations have never done an audit of intellectual assets other than trade secrets. They don't know what needs to be protected, let alone how. This is puzzling in a country where 70 percent of a company's value lies in its intellectual property.

Common sense would lead you to think that with high losses, espionage would be an area of serious concern, with a large number of firms equipped to help stop it. Yet there are only a small handful of expert firms who specialize in this area. Most security directors and managers, if they think about the issue at all, do nothing, particularly in times of high economic stress, on the assumption that the thief will go elsewhere.

This may seem imprudent, but follow the logic: there are roughly 6,800 companies listed on the NYSE and NASDAQ, so the odds seem in one firm's favor that one of that firm's competitors will be the target. This works for flocks of ducks, schools of fish and highways full of speeding drivers. So why not here?

The reason is the sheer scale of the problem. The average cost of an incident in a non-manufacturing environment is \$500,000, and the average cost of an incident in a manufacturing environment is a lot more.

Making matters worse is Iraq. Put aside America's belief about its involvement. Other nations, and many foreign nationals, feel that what they perceive as a unilateral invasion of a sovereign nation removes their obligation to respect international law in regards to the United States. Moreover, they feel they now have a moral imperative to steal our intellectual assets. Because of this, they have increased their espionage efforts against American companies. They can do this with some impunity because at the moment the U.S. government has its resources devoted to areas other than protecting a private company's proprietary information. When you combine moral imperative with diverted protective resources with investment-free technology, the temptation to steal is overwhelming.

Fueling the supply side of this newfound freedom to steal is the economy.

When the economy is bad and people are losing their jobs (or fearful of losing their jobs), company

loyalty disappears. People who might not have sold secrets are more willing to do so, or at least become more vulnerable to subornation out of resentment toward the company they fear will fire them out of economic desperation.

This means that if you are in the majority that turns a blind eye to economic espionage you should, when you wake up every morning, be asking yourself, "Am I feeling lucky today?"

SIDEBAR: Signs of Possible Espionage

A company may find itself:

- Being underbid by competitors who know your costs, margins and bids.
- Having clients called on by competitors who have your customer list.
- Marketing against a competitor who seems to have your marketing plan.
- Competing against your own products, which competitors can sell at lower cost or market more, because there is no R&D overhead.
- Letting your employees go as business is taken away by thieves.
- Closing down divisions, and even whole

companies, as markets are stolen from you.

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