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## FEATURES: Menace of the cuckoo workers

By Rhymer Rigby  
 Financial Times; Sep 03, 2004

People do all sorts of things that they really should not do while they are at their desks - from online shopping to arranging babysitters - and most companies understand and accept this. But some employees go a little further. While "working" for their company, they are also working for - and in some cases running - other businesses. At the very least they are stealing their employer's time. At worst, they are defrauding the people who pay their salaries.



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These are the "cuckoo business" tycoons.

"We've come across a number of situations where someone's diverting customers or intellectual property," says John Smart, a partner in global investigation at Ernst & Young. "It's not that unusual and it's often a precursor to them heading out the door with half the business." Numbers, he continues, are difficult to come by - businesses tend not to advertise the fact that they have been duped. Anecdotally, however, such cases seem to be increasing.

Mr Smart was recently hired by a Spanish company to investigate a small UK subsidiary. The company had been tipped off that its British managing director was running a competitor business on the side. It was finally established that this cuckoo company - to which business was being diverted - was in fact being "run" by the man's wife. "The man was dismissed," says Mr Smart, "although it was impossible to prove anything. Eventually we just had to say that it was considered inappropriate."

The managing director of a scanning technology business based in the UK found himself on the receiving end of such a scam. "I had four employees who started a company three months before they left and started diverting business," he says. "They founded the business in August and I discovered it in October after an anonymous tip-off. They had set up a mirror image of my company." By the time he knew what was going on, the cuckoo business was well established and the employees were busily diverting goods and business. The managing director says that he approached the government's Department for Trade and Industry "but they were powerless to act". He also spoke to the police, but failed to stir them into action.

Eventually, he hired Diligentia, a private investigations service which put the suspects under surveillance - much of it real cloak and dagger stuff. This resulted in three arrests and the recovery of more than £100,000 worth of equipment. "It's been hell," he says. "You have to go after them and it takes a year. But if I hadn't [brought in the investigators], I would have lost my company."

Henry Hobson, managing director of Diligentia, says that investigations of this sort are what he spends most of his time doing. "It happens all the time," he explains. "We've also had stockbrokers siphoning off clients and then setting up on their own. It can be anything from employees getting together and using their company's time and resources to run another business all the way through to fraud and theft on a massive scale."

Indeed, as Mr Hobson says, not all of these corporate cuckoos are big birds. Rather than steal an employer's time and money, some employees are simply running their own companies from their desks.

Simon Dawson, head of corporate investigations at the Risk Advisory Group, an investigation and intelligence consultancy, recalls working with a charity. "We found three

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guys in the information technology department. One was running a property letting business, another was downloading counterfeit software and using the company's facilities to package it, and a third spent most of his time running a website devoted to sci-fi in the 1950s."

One of the problems for employers is the blurring of what constitutes reasonable behaviour and what does not. Few bosses are going to complain if an employee sells a couple of pieces of antique jewellery on eBay, the online auctioneer. But internet auctions can be addictive and some people have turned hobbies into full-blown commercial enterprises which start to eat into work time.

The huge leap in the affordability and efficacy of high-performance technology has been a boon to those who want to have their job and cheat it. It sounds like an advertising slogan, but these days people really can run a business with a laptop and mobile phone. And the incentives to do this are far greater if someone else is picking up the bill for the support infrastructure.

Not that it should be imagined that all these scams are high tech. Toby Latta, director of corporate investigations at Control Risks Group, a London-based business risk consultancy, worked with a business where the typing pool's productivity had dropped mysteriously. The reason? Staff were using the company facilities to sell cosmetics, drumming up business on the telephone. In a rather more flagrant case, Control Risks Group helped a US company to discover that its Moscow representative was running a brothel from the premises.

Clearly, this kind of abuse can occur at any level of a company's hierarchy. But, says Mr Latta, the offenders are often relatively senior and long-serving, "in positions of considerable trust". In fact, they are often the last people you would expect: when most people think of this type of internal fraud, they think in terms of a worker in the mailroom running a small-scale scam, or a salesman passing off clients.

Much more often though, it is the long-serving middle manager, someone who knows the ropes and may not be subject to the same level of scrutiny that a more recent recruit might be. Why do they do it? Any number of reasons. Perhaps they were passed over for a promotion; there may be money troubles at home; or they may simply be bored. Whatever the case, people higher up the company are likely to cause far more damage than those lower down.

Executives overseeing the award of contracts are probably guilty of the most flagrant abuse. "The classic is a catering contract being awarded to a business 'run' by the managing director's wife," says Mr Latta. "In one case, we found someone in charge of buying IT services who used a company that charged 50 per cent over the market rate - and that company was run by someone she was involved with."

As well as taking advantage of their seniority, cuckoo crooks can exploit their untouchability from central control. Subsidiaries in eastern Europe, far from the corporate headquarters and where local business practices can be rather rough and ready, are notorious for this sort of thing.

Companies can take a number of steps - often common sense - to ensure that their employees do not take on two day jobs (see box). But the fact that, according to a report by Ernst & Young published this year, 85 per cent of corporate fraud involves an insider suggests that most companies do not do nearly enough.

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