

# THE TIMES

## Sleuths step into the limelight

By Liz Chong  
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### Undercover Agents

#### KROLL

Set up by Jules Kroll

- \* Acquired by Marsh & McLennan in July 2004 for \$1.9 billion.
- \* The same year several staff were arrested in Brazil, accused of spying illegally.
- \* Famous cases include search for assets hidden by Ferdinand and Imelda Marcos.
- \* Refused to represent Marks & Spencer during bitter takeover war waged by Philip Green, prompting accusations over its role.
- \* Hired by WPP to investigate the scandal at WPP.

#### HAKLUYT

Set up in 1995 by Christopher James, a former MI6 officer, and Peter Cazalet, ex-vice president of BP.

- \* Bigwigs on its board include Sir Rod Eddington and Bill Bradley, a candidate for the Democrat presidential nomination in 2000.
- \* Often alleged to be the commercial arm of MI6.
- \* Based in Upper Brook Street in Mayfair.
- \* Notorious for spying on green pressure groups for Shell and BP.

#### CONTROL RISKS

Set up in the 1970s as a unit of Hogg Robinson, advising on response to kidnappings of executives in South America.

- \* Expanded into business intelligence in the 1990s.
- \* Now Kroll's largest rival.
- \* Uncovered the secret dealings between Co-op executives and Andrew Regan, who wanted to take over the Co-op.
- \* 24-hour emergency response room to advise companies whose employees are in troublespots.

#### GPW

Set up in 2004 by Patrick Grayson, former head of Kroll's London office, with two senior Kroll staffers.

- \* Says small "boutiques" are more effective to meet clients' needs.
- \* Rumoured to have acted for Roman Abramovich over a lawsuit against the Russian billionaire by the European Bank for Reconstruction and Development.

#### RISK ADVISORY GROUP

Set up in 1997 by ex-Kroll staff.

- \* £15 million management buyout in 2004 of a private equity house which bankrolled the firm.
- \* Worked for the NHS investigating price-fixing drugs cartel.
- \* Large security operations, with 500 staff in Iraq.

Companies may not admit using them, but private investigators have gained acceptance, reports Liz Chong.

Their clients include governments, leading investment banks, hedge funds, private equity houses and FTSE 100 companies, but few would admit that they have ever hired corporate detectives, let alone met any.

It would be too embarrassing to reveal that a company had enlisted the help of a private investigator to dig up the dirt on an opponent or client, or disclose that they had been duped by an employee or partner.

None want to suffer similar humiliation to that heaped on Procter & Gamble, forced to pay a \$10 million out of court settlement to Unilever in 2001 after admitting that it had spied on its rival. The investigation involved rifling through Unilever's dustbins in Chicago.

And yet business investigation and intelligence is on the rise, driven by an array of legislation introduced by the US Congress in an attempt to clean up corporate America. The laws impose heavy duties on directors, accountants and lawyers.

Directors, perhaps not surprisingly now that they are personally liable for any financial scandals, want to avoid falling foul of prosecutors, who have zealously pursued white-collar crime in recent years, with the open backing of the Bush Administration.

Bill Waite, chief executive of the Risk Advisory Group, an "investigation and intelligence consultancy", identified the regulatory burden as "the biggest substantive driver for growth in business intelligence".

The decision by the US Justice Department to prosecute the lawyer James Giffen under the Foreign Corrupt Practices Act has also made companies increasingly nervous about the background of prospective partners. Giffen was accused of funneling \$60 million in bribes to the President of Kazakhstan on behalf of several oil majors, including Mobil Oil, Shell and Chevron.

Although the legislation dates from 1977, American authorities were previously slow to pursue any companies or individual Americans who had broken anti bribery laws.

The plethora of bribery and corruption legislation has made it common practice for investors to hire investigators to look at the hedge funds they may invest in, or for private banks to hire companies that examine the background of a new client from Eastern Europe.

The end of the Cold War has also proved a catalyst for the growth of corporate investigations, as companies expand into new markets, including Russia. Western companies that are unfamiliar with the business culture in Eastern Europe and Russia have nowhere to turn for help but to companies such as Kroll and Control Risks.

Charles Hecker, head of the Russia practice at Control Risks, says: "We are in an environment where investors are being pulled further and further beyond their comfort zones of traditional markets."

He cited Russia and its lack of transparency. A company looking to enter a joint venture in Russia would be well advised to investigate the political links and background of its partner.

Increasingly aggressive business tactics make it standard practice for private equity houses to use investigators to examine the curriculum vitae of the chief executive of a potential target.

Similarly, investment banks advising well-known businessmen on mergers and acquisitions have been known to conduct due diligence on their past by hiring corporate sleuths.

Lawyers are also a steady stream of revenue for the industry. Gary Miller, head of fraud and investigations at Mishcon de Reya, the law firm, frequently hires GPW, Kroll and their competitors to investigate how a fraud was perpetrated, and trace stolen assets.

Miller has spent the past 15 years building up a database of investigators and has about 400 companies on his list. He takes a pragmatic view of the industry and its techniques: "There is lawful bugging and there is unlawful bugging. You can stay within the constraints of the law if you tap or monitor telephone calls in the office. Equally, dustbins can be quite good. They are very useful."

A leading lawyer who has used Kroll on several occasions cautioned that the best way of recovering stolen assets was a court injunction.

He says: "If the guy has bought a \$20 million Matisse, Kroll would be useful at finding out if the painting is in the house. They'll have locals who can sit and have a cup of coffee with someone to find out who was fired. It's Dick Tracy stuff."

The willingness to hire private investigators can be partly attributed to the success of the industry in shedding its threatening image.

The credit for this lies with Jules Kroll, the enigmatic grandfather of the industry, who spent much of the 1980s absorbed in high-profile takeover investigations for Wall Street. Mr Kroll's success was cemented in 1992 when he was featured in The New York Times as Wall Street's "gumshoe".

The \$1.9 billion acquisition of Kroll in 2004 by Marsh & McLennan, the American insurance and financial services company, signalled that the transition to respectability was complete. However, the industry leader has had a few slip ups: several of its staff were arrested in Brazil that year and five have since been charged with breaching data protection laws. Kroll declined to comment. The firm has previously denied any wrongdoing by its employees.

Having ventured across the Atlantic to Britain in the 1980s, Kroll has maintained pole position in the industry, which is littered with companies formed by former Kroll staff.

Senior staff left Kroll to set up rival companies during the mid-1990s, including John Conyngham, who was lured away by Control Risks to head the company's business intelligence unit. Conyngham remains at Control Risks, Kroll's biggest competitor.

In 1997, all but a handful of Kroll's London office walked out to form Risk Advisory Group.

More competition also appeared in 1995 in the form of Hakluyt, a shadowy company run by former MI6 officers. Named after the mapmaker of lore, the company is the self-styled Cazenove of the industry, with a client base mainly of FTSE 100 companies.

The industry is characterised by a handful of larger companies, with some smaller boutiques. These include GPW, headed by Patrick Grayson, a former Irish Guards officer who previously ran Kroll's London office. Another recent breakaway is the good governance group, known as G3.

The marketplace has even attracted interest from the Big Four accounting companies, which have set up specialist units within their forensic sections. Yet they are all dependent on the web of contacts accumulated through networking.

The companies all say that they have strict ethics policies, which require them to observe the laws of the country they are working in. But it is not uncommon for investigators to distance themselves from surveillance work or bugging by hiring smaller agencies.