

A Valuable Asset

Case Study: Intellectual Property Theft

OVERVIEW

A Fortune 500 technology firm hired a company to make goods for it in China. The Chinese company regularly received microchips and other intellectual property necessary to make the Fortune 500 business's products. The Chinese entity was obligated to keep strict control over the IP.

THE PROBLEM

There was a report made to the Fortune 500 company claiming that its' IP, including microchips, was being diverted to shell companies and sold in black markets in China. The persons responsible for this were allegedly two former employees of the Chinese company colluding with current employees.

OUR APPROACH

KLINK has performed hundreds, if not thousands of investigations in China. We conducted a thorough investigation beginning with a review of accounts payable records, personnel files, and financial data to understand the scope of the potential problem and to identify leads. KLINK obtained and analyzed corporate filings in China, identified shareholders, discreetly performed a site visit at the shell companies, and visited and spoke with industry sources. We identified the two former employees responsible for the bad acts and found that they were working for another technology firm in China.

RESULTS

KLINK confirmed that the alleged scheme was real. The two former employees of the Chinese company had been colluding with current employees and stealing IP. We confirmed the existence and activities of the shell companies used to buy microchips. Our investigation also determined that the two former employees had a long history in the technology business and of engaging in bad acts. Finally, we identified the guilty employees of the Chinese company. We recommended changes to internal controls.

KEY TAKEAWAYS

- IP theft is common in China and a continuing threat
- Successful investigations must include a review of records plus field work
- Internal controls must evolve
- Due diligence is needed to combat an ever-present threat

