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We're leaking, and everything's fine: How and why companies deliberately leak secrets

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Abstract Although the protection of secrets is often vital to the survival of organizations, at other times organizations can benefit by deliberately leaking secrets to outsiders. We explore how and why this is the case. We identify two dimensions of leaks: (1) whether the information in the leak is factual or concocted and (2) whether leaks are conducted overtly or covertly. Using these two dimensions, we identify four types of leaks: informing, dissembling, misdirecting, and provoking. We also provide a framework to help managers decide whether or not they should leak secrets.

1. Organizational secrecy

Organizations are open systems: they continuously interact with their external environments and share information across their boundaries (Scott, 1981). Examples are plentiful. Marketing campaigns, submissions to regulatory authorities, and communications with suppliers and partners are but a few of the myriad ways in which organizations deliberately share information with the outside world. But sharing information is not always beneficial, and for organizations to survive and thrive, they must manage such interactions carefully.

One critically important type of information sharing is the sharing of secrets. Many organizations keep secrets; that is, they possess information that is deliberately withheld from others (Scheppele, 1988). But on occasion, secrets are leaked outside the company, and those leaks can have substantial implications for the welfare of organizations (Hannah, 2005). In this article, we explore what we term *deliberate leaking*: the intentional choice by organizations to share secrets outside of their boundaries. Secrets are defined as any piece of information an organization possesses and has intentionally withheld for some reason (Scheppele, 1988). This can include many types of information such as business models, strategic plans, lists of customers, planned mergers and acquisitions, product launch dates, designs, formulae, and working practices. In deliberate leaks, organizations initially choose to protect their information but later choose to leak the secrets or a concocted version of them because there is a benefit in doing so. Herein, we discuss why and how organizations deliberately leak secrets.

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1.1. The benefits of keeping secrets

On the face of things, it may seem counterintuitive for companies to choose to leak their secrets. While organizations sometimes keep secrets simply because they are obligated to (e.g., the personal data of employees), organizations often keep secrets to extract more value from their knowledge (James, Leiblein, & Lu, 2013). For example, by keeping its formula a secret, the Coca-Cola Company has preserved the value inherent in being the only manufacturer of Coke and has benefited accordingly. If secrets are not protected, companies can and do suffer substantial losses: U.S. companies alone lose billions of dollars annually due to the misappropriation of trade secrets (Create.org & PwC, 2014). The popular press is replete with examples of companies and even governments suing one another to recover some of the harm done by the loss of valuable secrets (Hannah, 2006). Correspondingly, the academic and practitioner literature on trade secret protection has tended to focus on how to safeguard secrets, usually recommending rules and procedures that deter trade secret divulgence (Hannah & Robertson, 2015; Hermelinna-Laukkanen & Puumalainen, 2007; Liebeskind, 1997). We contribute to the topic by instead exploring how organizations can sometimes benefit by leaking their secrets.

1.2. The benefits of leaking secrets

On some occasions, organizations are required to share their secrets with suppliers, partners, regulators, investors, customers, and even competitors. For example, the U.S. Food and Drug Administration requires that biopharmaceutical firms disclose a range of secret information about the formula, manufacture, and marketing of any planned new drug. This sharing of secrets is a requirement of the drug approval process.

On other occasions, organizations deliberately leak secrets when they are not required to. For example, John Martellaro (2010), a former senior marketing manager at Apple, acknowledged that the firm has engaged in "controlled leaks." He described the leaking process as follows:

> The way it works is that a senior exec will come in and say, "We need to release this specific information. John, do you have a trusted friend at a major outlet? If so, call him/her and have a conversation. Idly mention this information and suggest that if it were [to be] published, that would be nice. No e-mails!"

According to this and other accounts, Apple "was a ship that leaked from the top" (Carr, 2010). Apple executives allegedly chose to leak secrets, a notion that we examine in this article along with the reasons and strategic implications of such intentional disclosure. We answer the following question: *How and why do organizations deliberately leak secrets?* We begin by introducing two key dimensions of leaks: (1) the nature of the information in the leak and (2) the signals that organizations wish to send about the leak. Using these dimensions, we then explore how organizations can purposefully leak secrets, and the benefits and risks of doing so.

2. The content of leaks: Truth, or everything but the truth?

To understand how leaks can vary and when a particular type of leak is likely to benefit an organization, one must first ascertain the nature of what is being leaked. While some leaks may contain accurate information, this is not necessarily always the case. Therefore, one of the most critical dimensions of a leak concerns its truthfulness: the degree to which it contains *factual* or *concocted* secrets.

2.1. Deliberately leaking factual secrets

When a disclosed secret is factual, the information communicated is honest, accurate, and real. This is common in the areas of innovation and supply chain management, where companies leak accurate information about their product innovation plans to suppliers so that production resources can be set up to deliver the innovation and complementary products. For example, consider the computer and video game industry and the companies that manufacture video game consoles, such as Microsoft, Sony, and Nintendo. They must share information about their plans to launch new models with the firms (e.g., Electronic Arts, Valve, Ubisoft) that develop games to be played on the consoles. Because the lead time required to develop new games is typically 2—3 years, this must be synchronized with the 5—7 year timeline of developing new gaming consoles and coordinated with the launch schedules of both products (McCarthy, Lawrence, Wixted, & Gordon, 2010). As another example, when Google was preparing its initial public offering (IPO), it chose to leak factual secrets regarding its business model. During Google's start-up years, CEO Eric Schmidt considered the model to be one of the company's most important and valuable sources of competitive advantage (Levy, 2011). The hiding of this secret came to a deliberate end in 2004 when investment bankers arranging the IPO of Google's