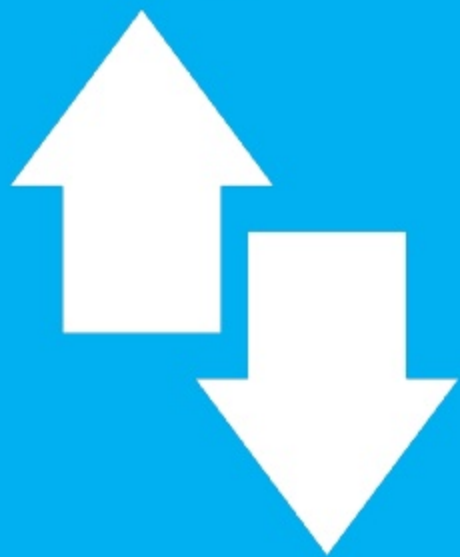# Managing Risk from the
Top to Bottom

How to
Safeguard Against Misconduct

From C-Suite Level to Regular Employees – and Using HR as a Gatekeeper

Presented at American Conference Institute's 3rd Asia Pacific Summit on

Anti-Corruption, Compliance and Risk Management

December 03-04, 2014, Hilton Singapore

AMERICAN CONFERENCE INSTITUTE

Eric Pesik
Associate General Counsel and Compliance Officer
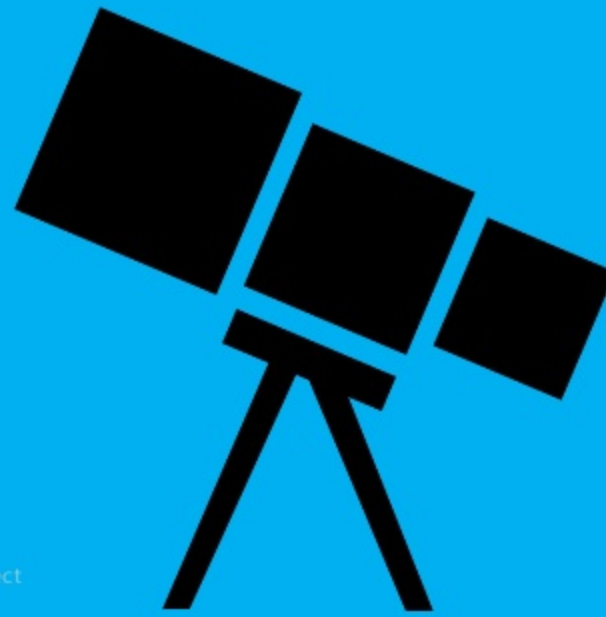Seagate Technology International

Bradley Klein
Partner
Skadden, Arps, Slate, Meagher & Flom

Thiru Sethuraman
Director, Ethics and Compliance
Cummins Distribution Business
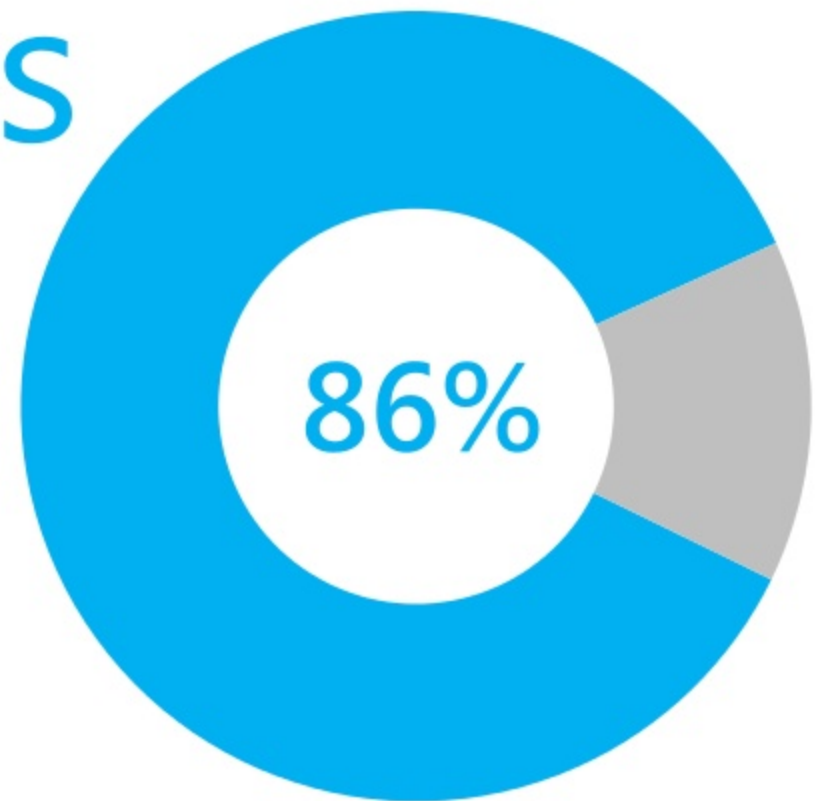
Defining Your
Legal Universe

Legal Universe

- Local vs Home Jurisdiction
- Collateral Laws and Related Issues
- Territorial vs Personal Jurisdiction
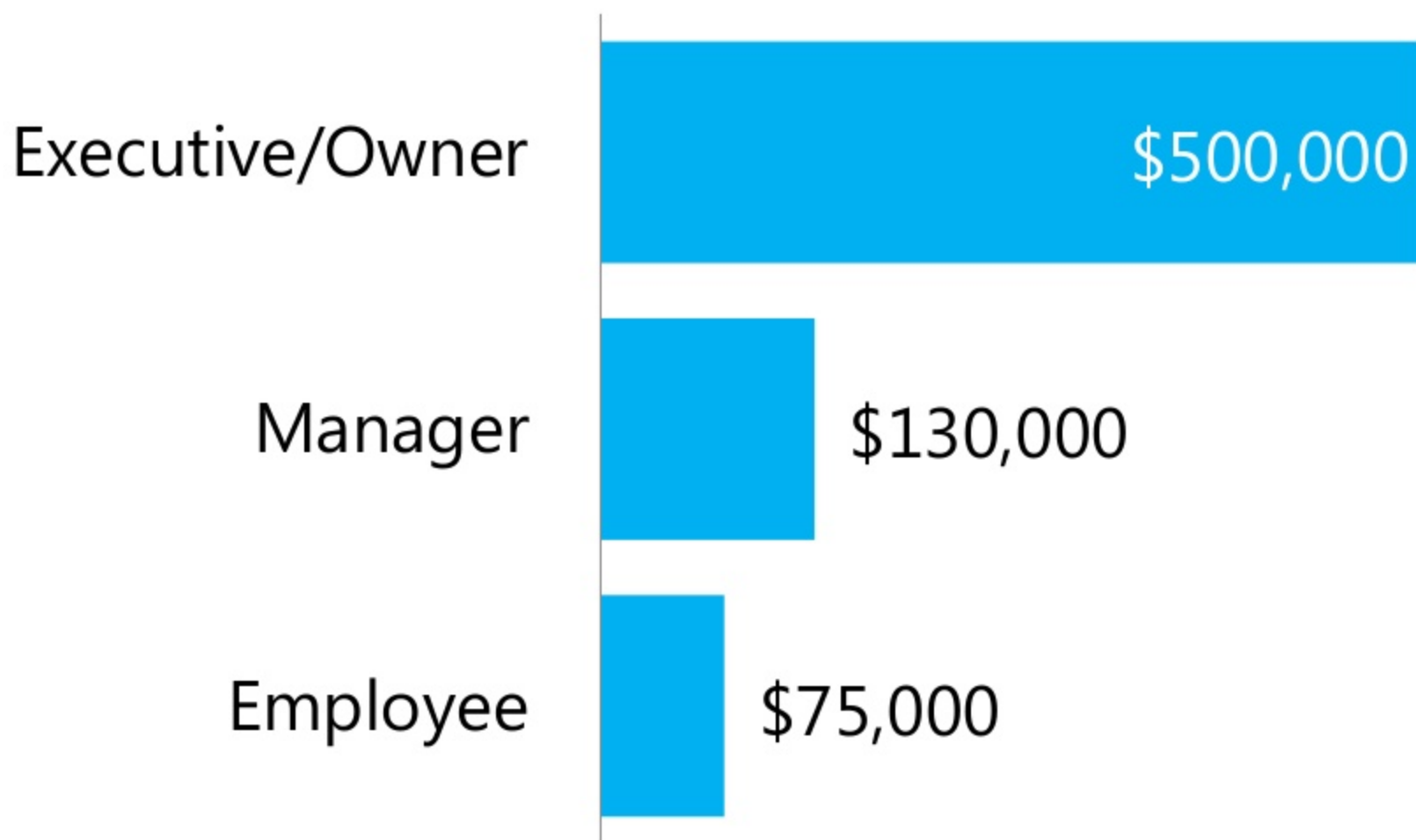
Risk Mitigation Actions
From the Top

86% of corporate fraud is known or perpetrated by senor executives

If you wanted to design an incubator for generating misconduct, it would look a lot like the C-Suite
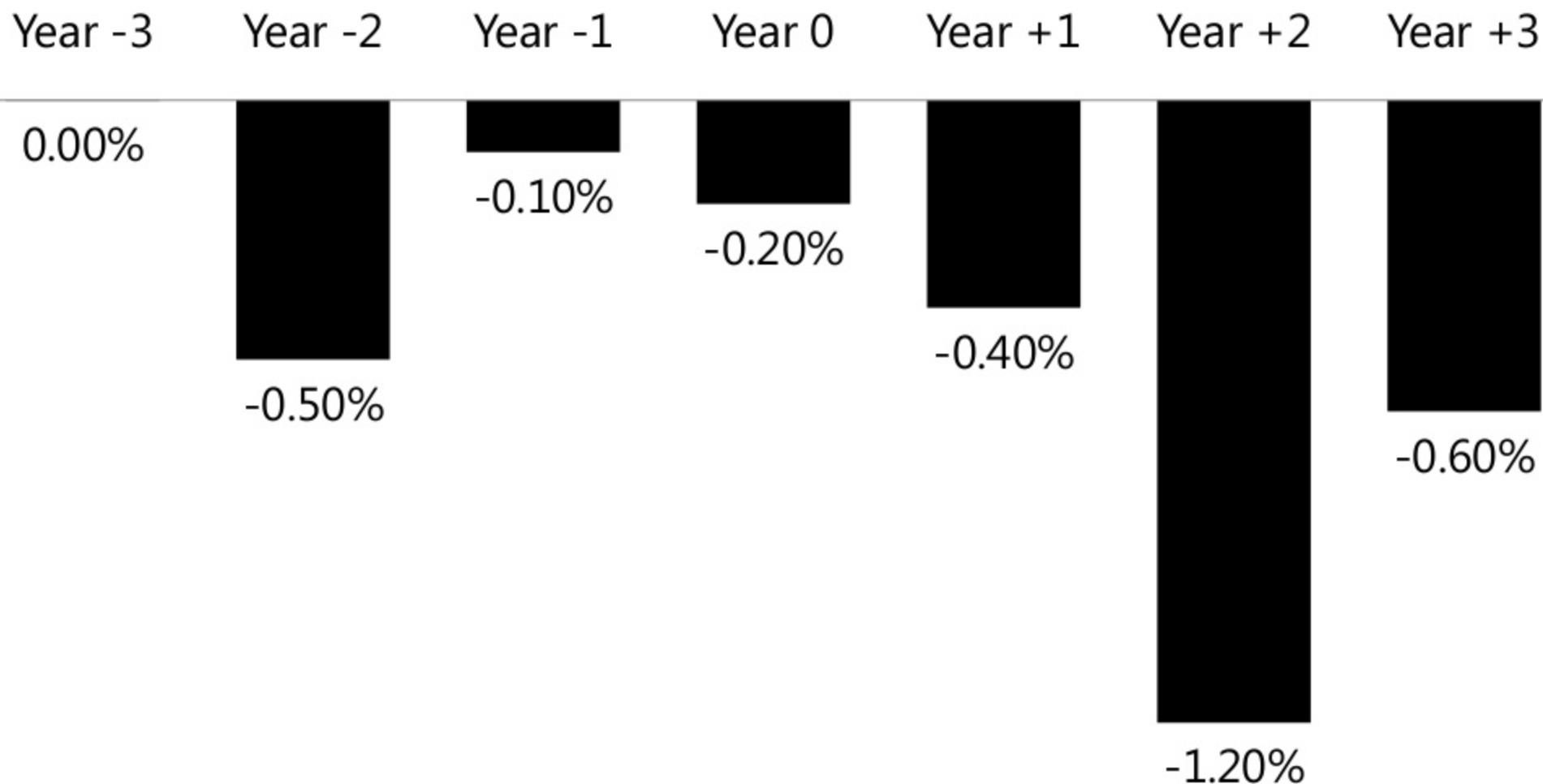
Median Loss (USD) to Fraud by Position of Perpetrator

Executive/Owner — $500,000

Manager — $130,000

Employee — $75,000

CEOs are prone to viewing the company's success as **indistinguishable from their own.**

Net Profit Margin

Year -3	Year -2	Year -1	Year 0	Year +1	Year +2	Year +3
0.00%	-0.50%	-0.10%	-0.20%	-0.40%	-1.20%	-0.60%

Companies that bribe have poorer net profit margin (net income divided by sales revenue)

Sales Growth

Year -3   Year -2   Year -1   Year 0   Year +1   Year +2   Year +3
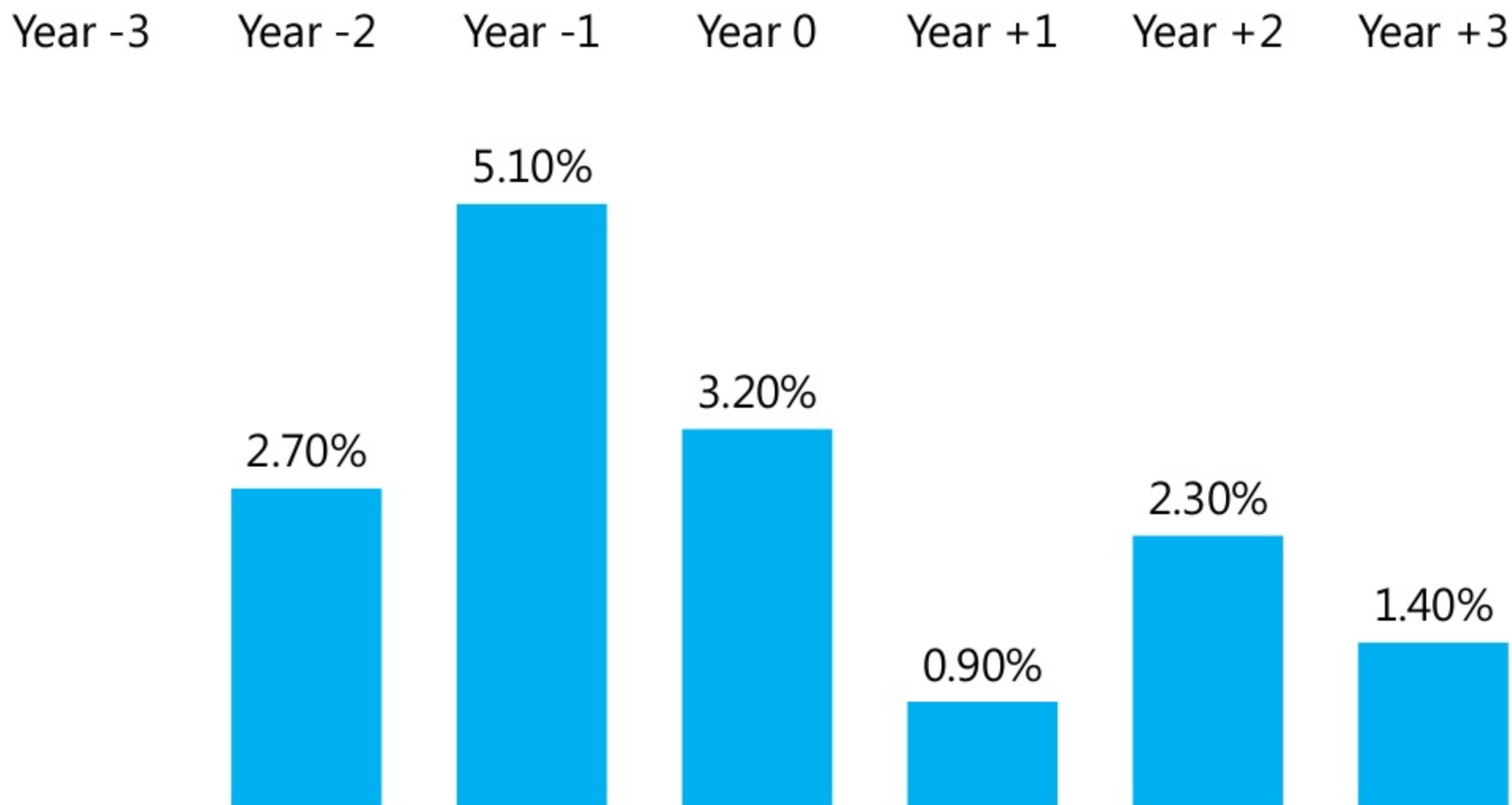
Companies that bribe have greater sales growth compared to control firms

Cumulative Abnormal Returns

Year -3	Year -2	Year -1	Year 0	Year +1	Year +2	Year +3
	0.50%	1.50%	1.60%	0.30%		
-2.90%					-4.60%	-6.80%
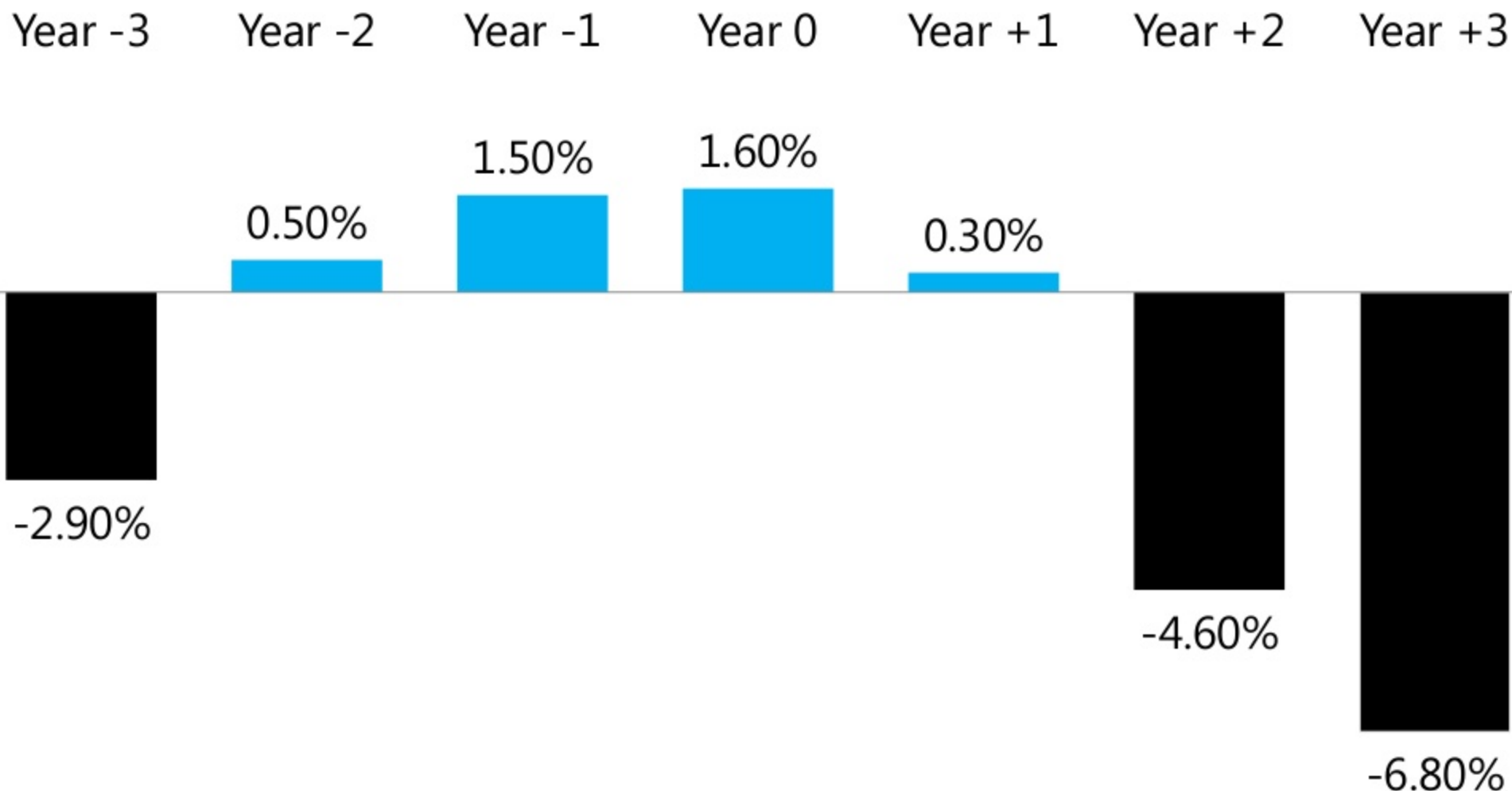
Companies that bribe have poorer cumulative abnormal returns (difference between the sum of the monthly returns for bribing firms versus control firms)

From the Top

- Tone From the Top
- Risk Management Oversight
- Establishing Internal Controls
- Guiding Middle Management
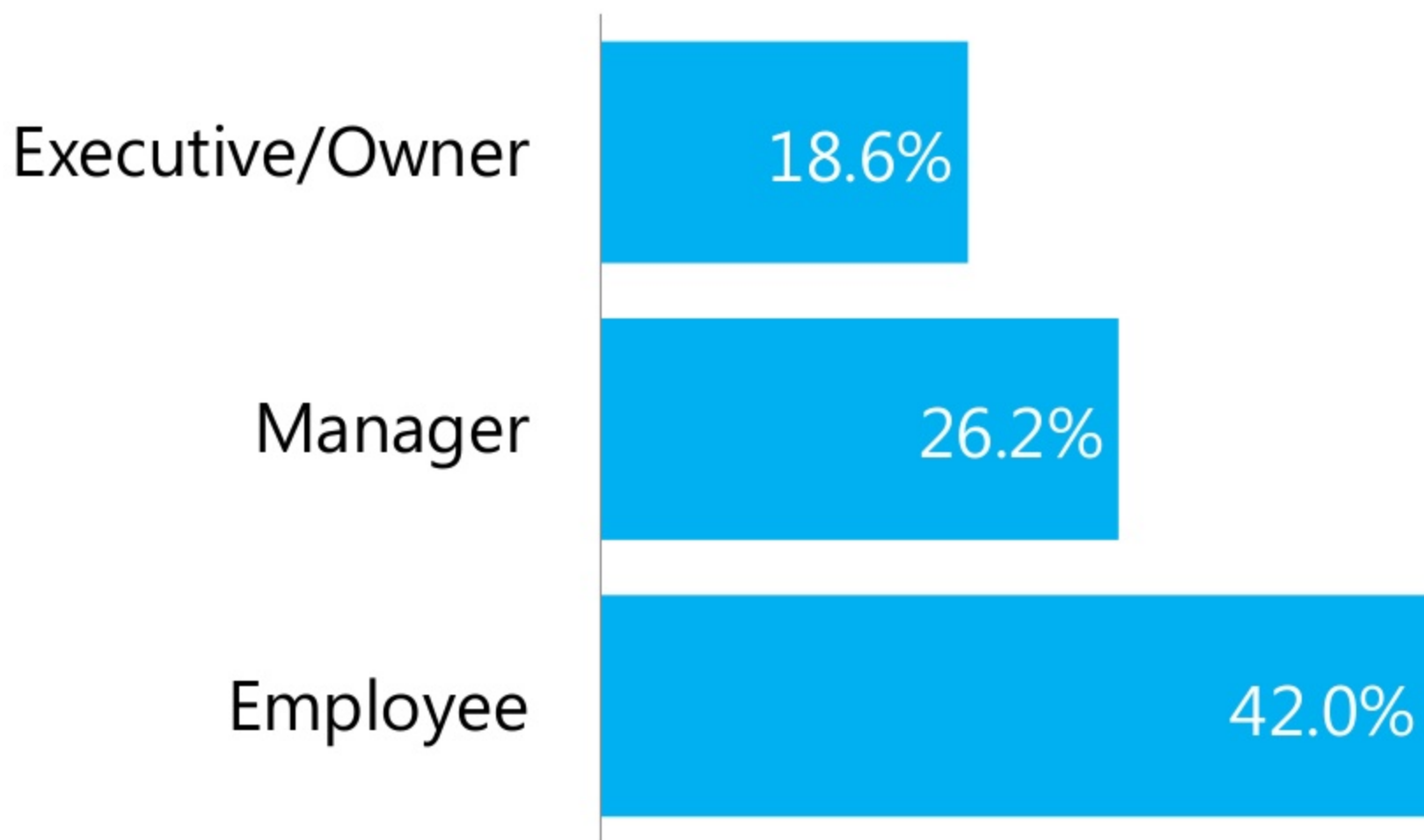
Risk Mitigation Actions
From the Middle

From the Middle

- Tone From the Middle
- Anticipate and Recognize Ethical Dilemmas
- Communicate Ethical Values
- Report to Top

Risk Mitigation Actions
At the Frontline

Occupational Fraud Frequency by Position of Perpetrator

Executive/Owner — 18.6%

Manager — 26.2%

Employee — 42.0%

Fraud Triangle