



Interchange Solutions Ltd

Empowering Anti Corruption Agencies: Defying Institutional Failure and
Strengthening Preventive and Repressive Capacities
ISCTE Lisbon 14-16 May 2008

“Just One Bad Apple?”



John Burbidge-King
May 2008

Individual



Corporate



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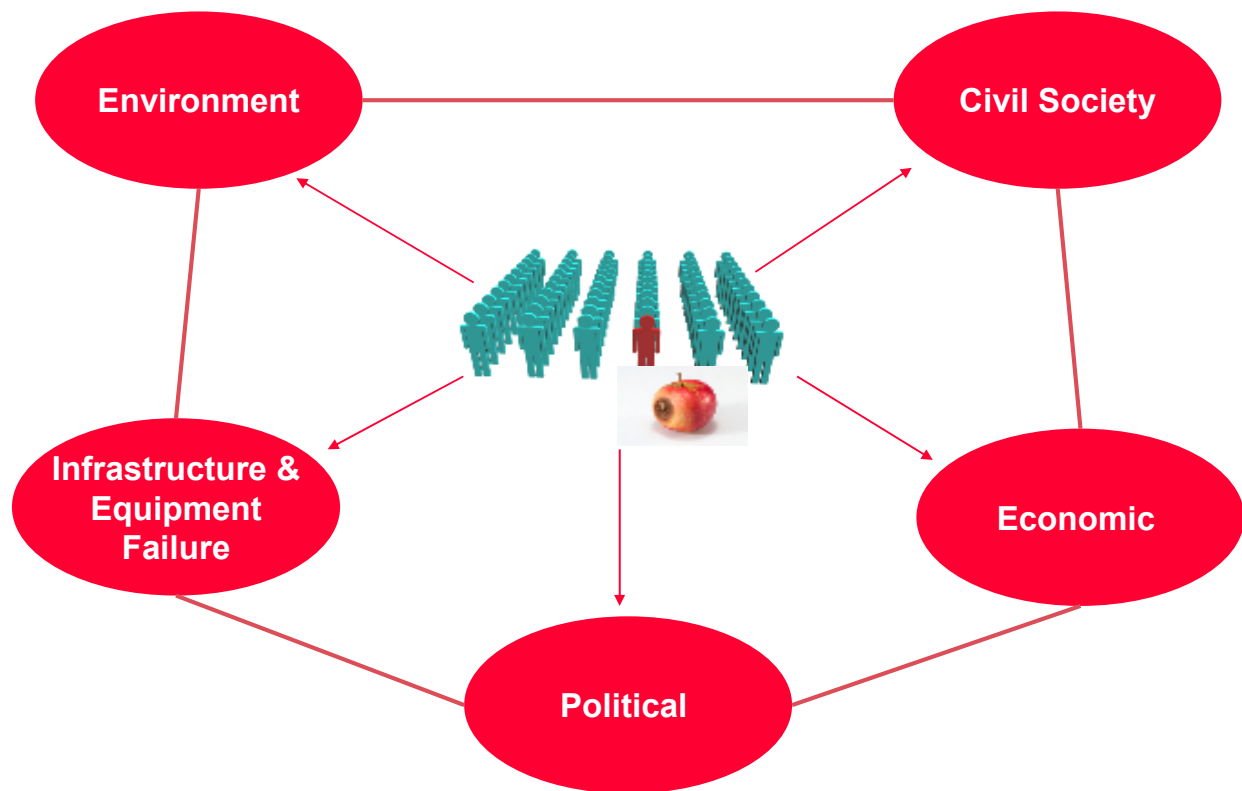
The corruption canvas

“But ~ this is the way you have to do business to win the contract in...”

- ◉ **Legacy and inbred attitudes to corruption**
- ◉ **Laws, conventions and regulations**
- ◉ **Competition ~ level playing field**
- ◉ **Economic cost of corruption**
 - World Bank \$US 1 trillion lost in global GDP
 - UK economy £4bn-£10bn
 - Impact on taxpayers
- ◉ **Associated with other crime** - criminal/terrorist activity
- ◉ **3rd EU Money Laundering Directive**
- ◉ **Emerging integrity pacts and industry agreements**
- ◉ **UK SMEs** (ACCA survey) and weakness in the supply chain:
 - 70% say bribery potential in all dealings
 - 51% unaware of UK laws
 - 67% believe high profile conviction would raise awareness
- ◉ **KPMG 350 Report**



Bribery and corruption impact



People bribe ~ not companies



They won't get me!



The more I got away with ~ the more a game it became, a game I knew I would ultimately lose

Frank W Abagnale Jnr



Risk behaviour

Examples:

- | | |
|--------------|----------------------------|
| ⦿ Individual | Barings Bank |
| ⦿ Group | Siemens |
| ⦿ Corporate | Enron |
| ⦿ Market | UK Premier League football |
| ⦿ Denial | Wembley plc |

Catalyst of a crime

A. Opportunity...

To engage in, gain from bribery, corruption, fraud or anti-competitive behaviour

- Access to accounts, cash, information, materials, Politically Exposed Persons (PEPs)
- Decision-making power or influence over supply/sales/management
- In “the right place at the right time”; temporary staff; too long in the same job

B. Motive...

That drives their actions

- Financial pressures, either individual or company
- Personal reasons; feeling undervalued/resentful
- Professional and peer pressure to succeed

C. Rationale...

Their personal justification

- “Others would do the same in my situation?”
- “Not likely to be found out”
- “I can justify or excuse my actions if caught?” (e.g. blame it on business culture)



Triangle of corporate crime

Bribery / corruption / extortion

Unforeseen
Risk

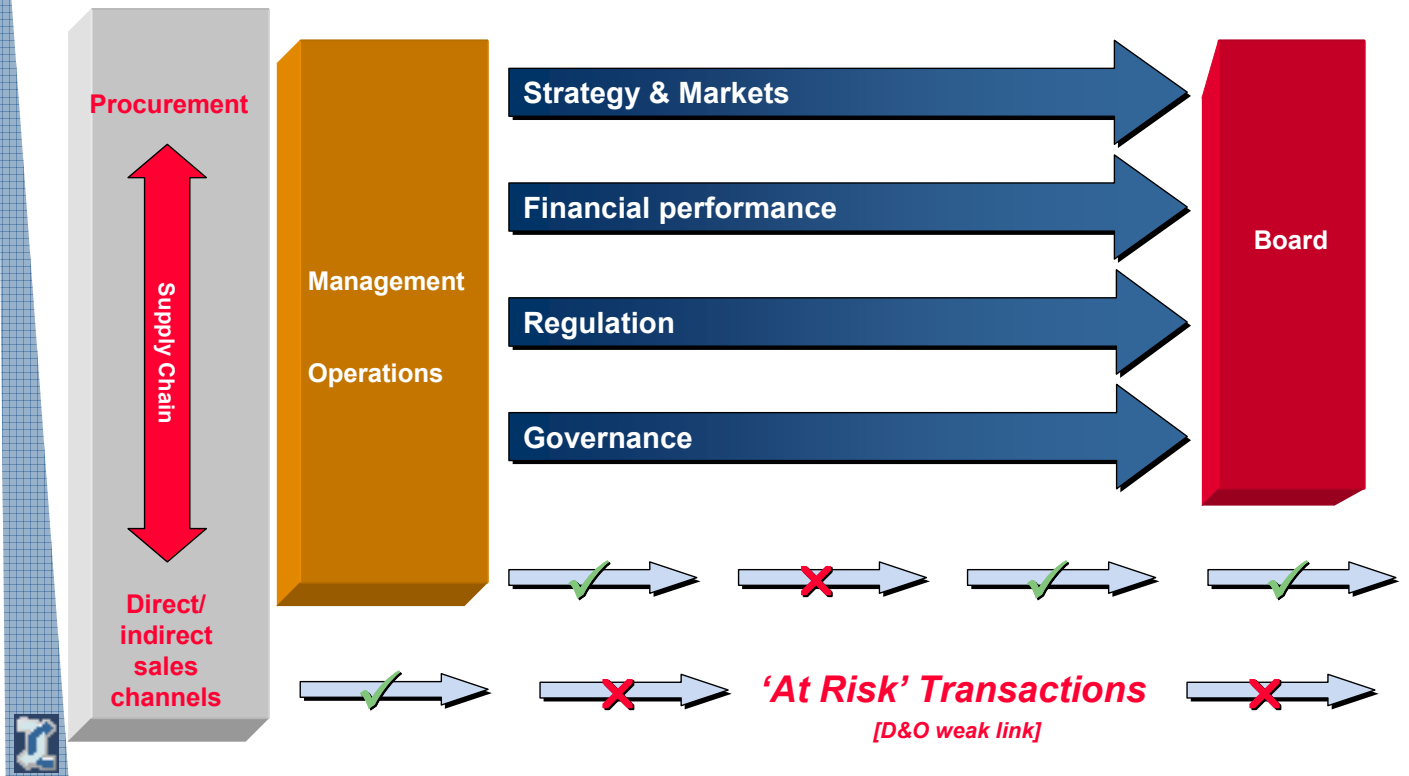
Anti-competition

Money Laundering/Fraud

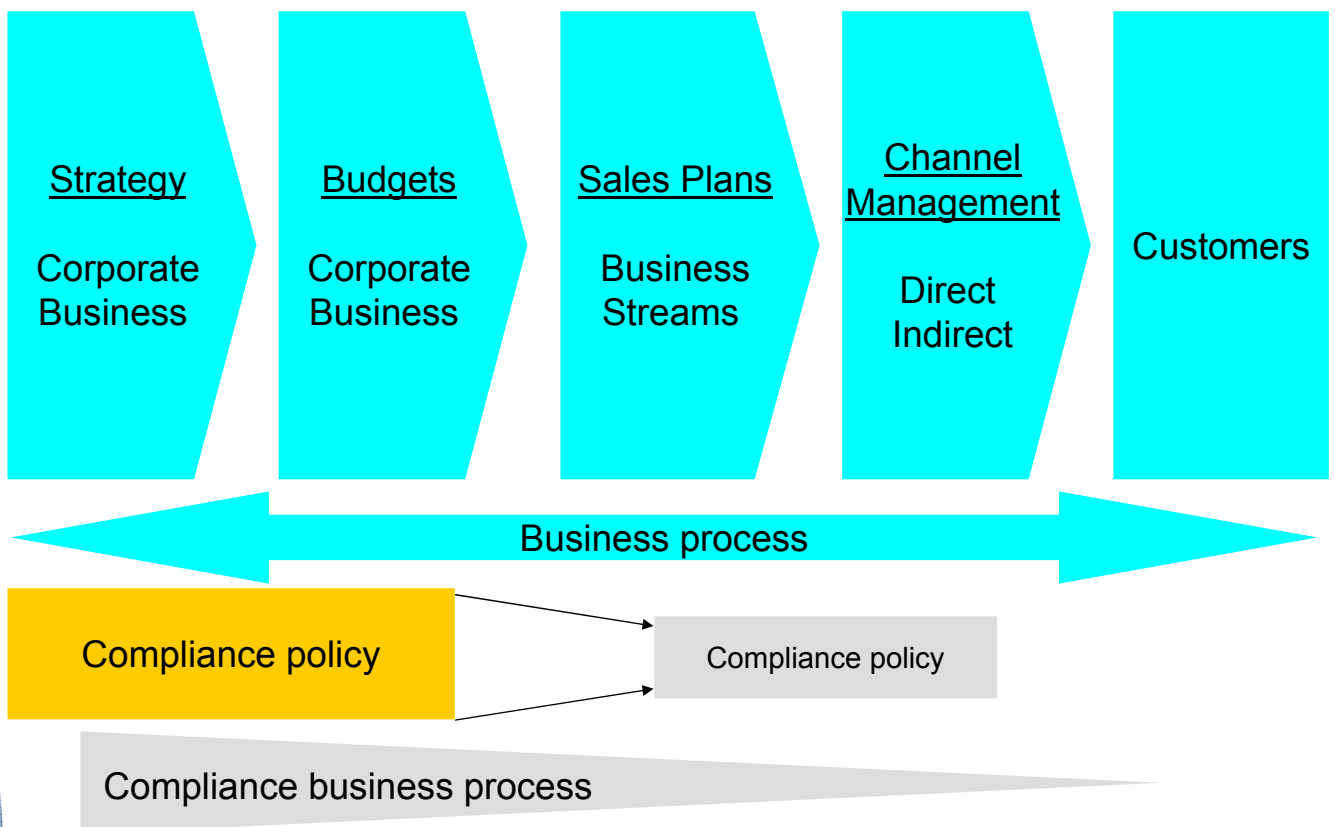


Corporate disconnect

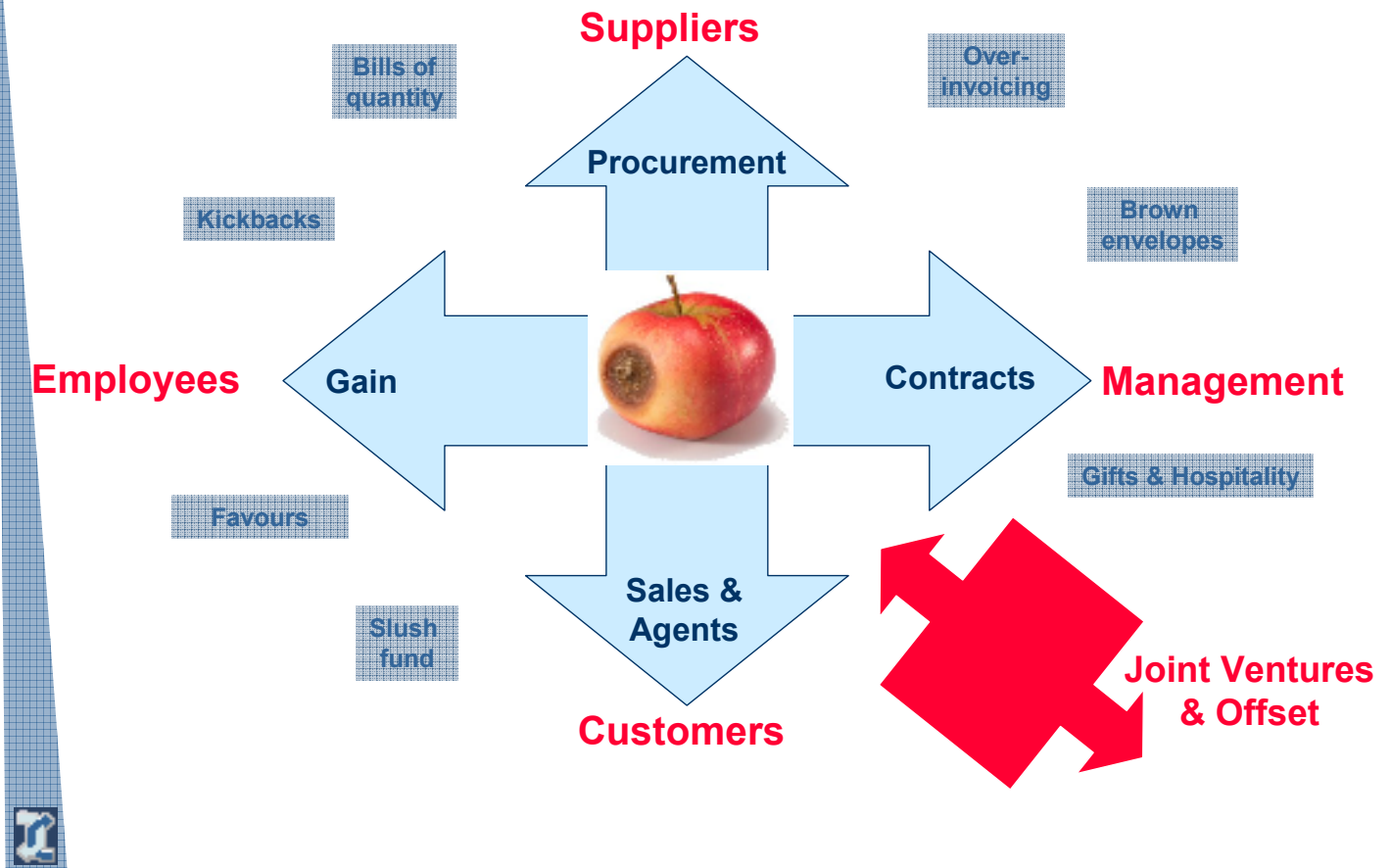
XYZ plc



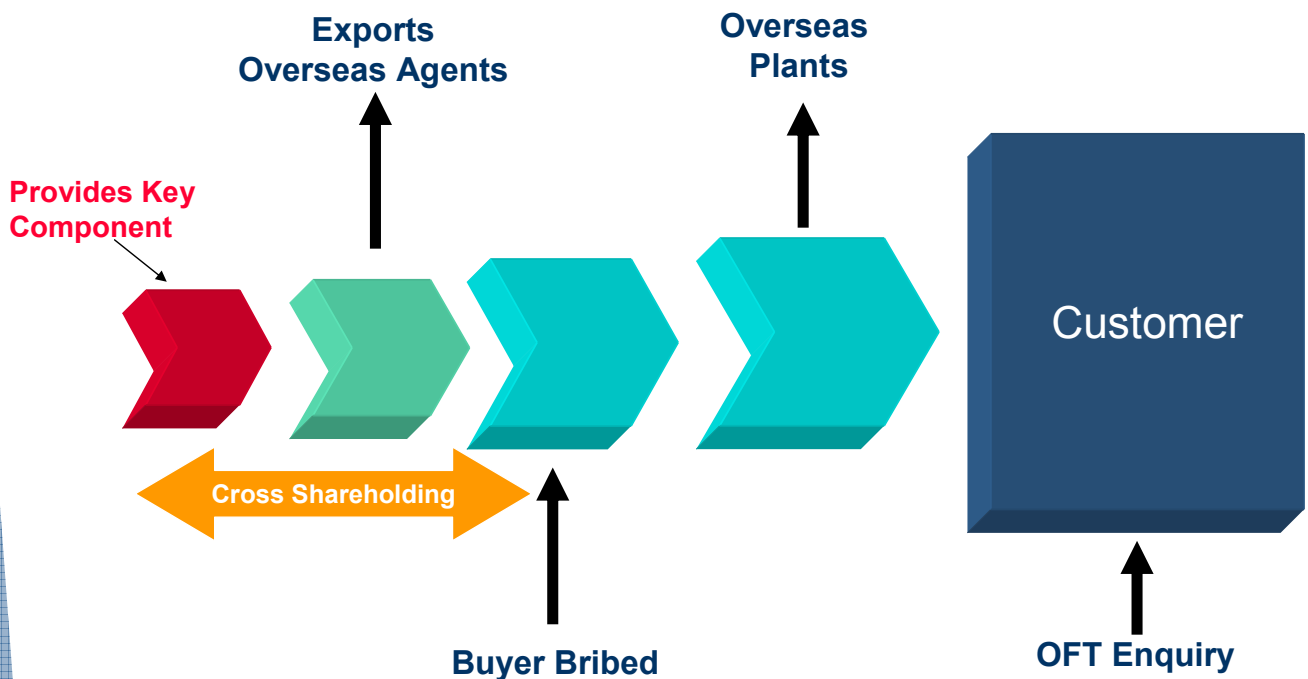
Approach to market (sales side)



Where can bribery occur?



Supply chain sensitivities



Commission and contracts (some simple maths!)



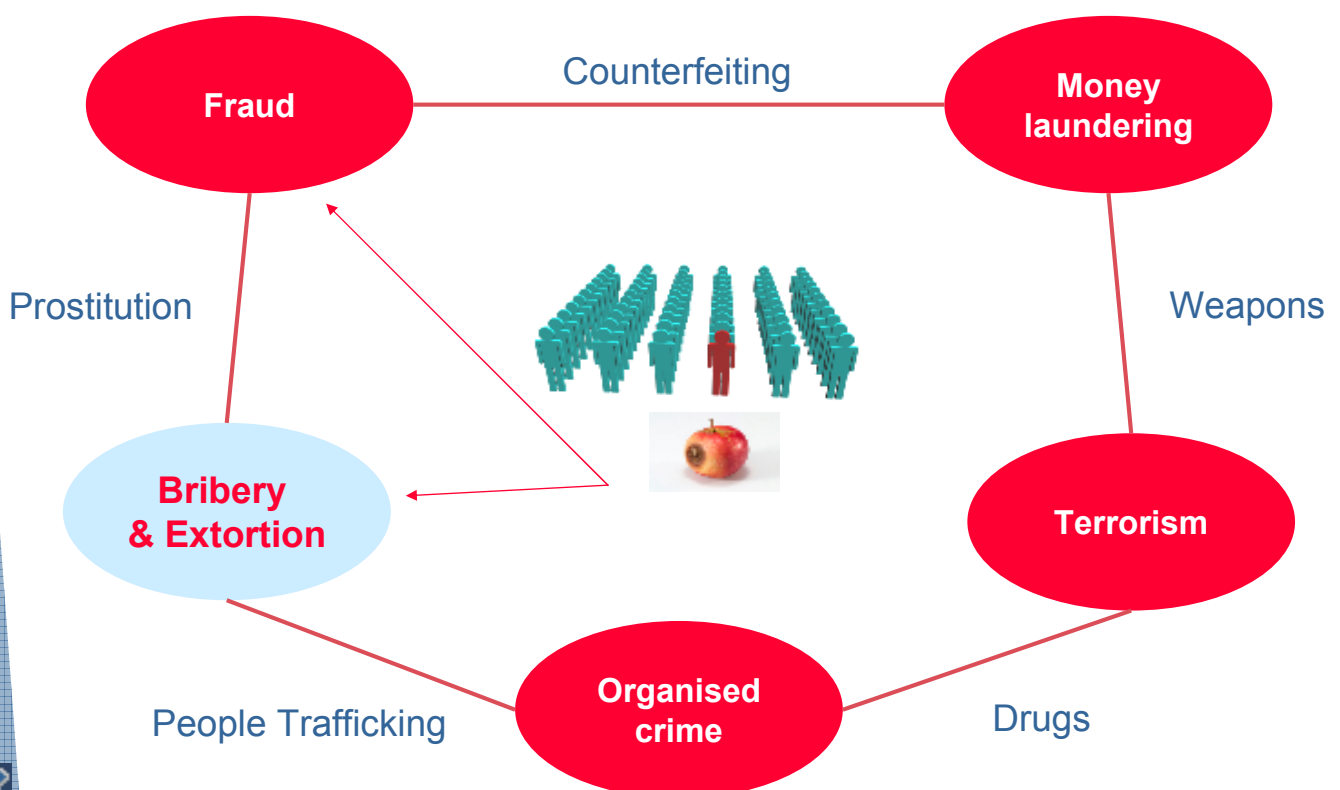
5 ambulances @ €50,000 each @ 5% commission
= €12,500 for the agent



Mountain highway @ €500 million @ 5% commission
= €25,000,000 for the agent

Criminal and terrorist risk

Links to the criminal network

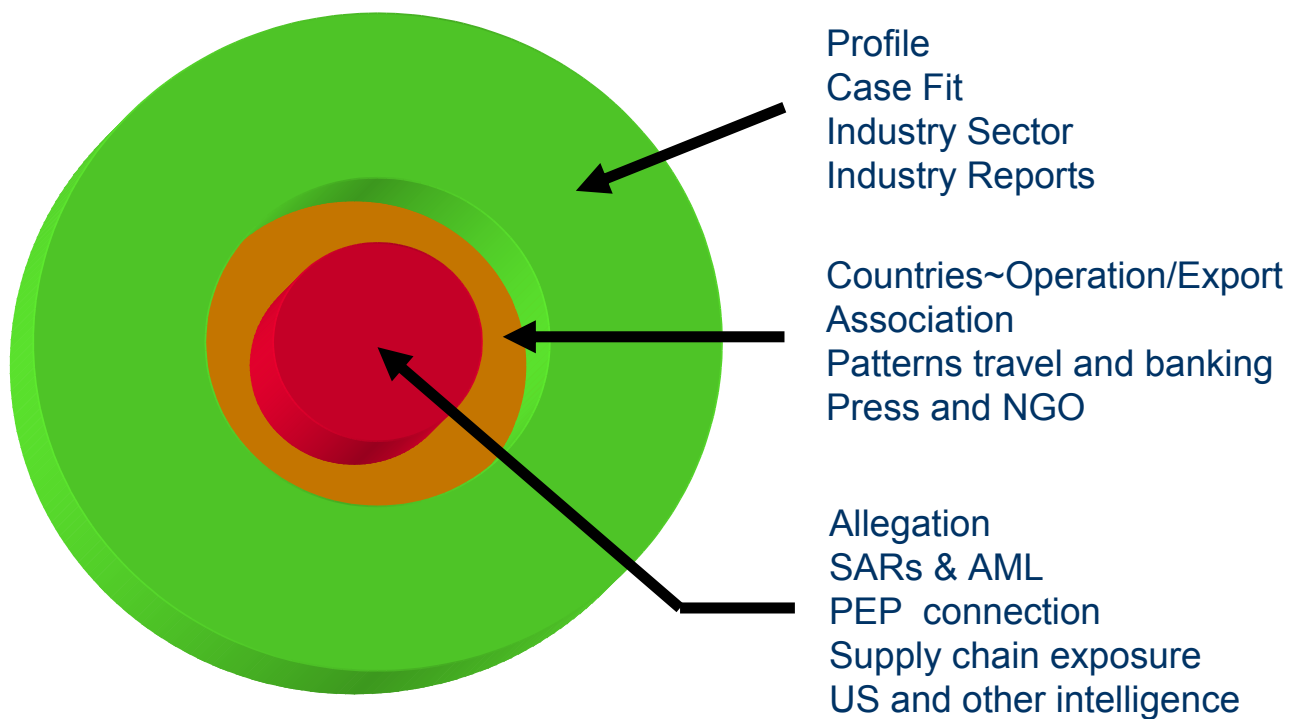


Discovery

- ◎ Third party
- ◎ Intelligence
- ◎ External profiling and information
- ◎ International co-operation
- ◎ By happenstance



Enforcement Radar Screen

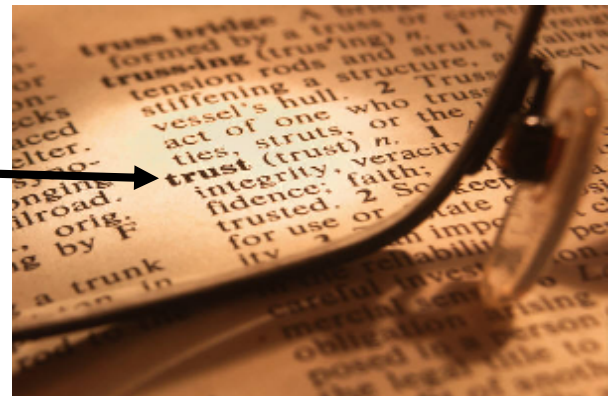


Reputation

“It takes twenty years to build a reputation and five minutes to ruin it. If you think about that, you will do things differently”

Warren Buffet

TRUST



Headlines

Paradigm BV fined
\$1m for \$12,500 bribe
[2007]

Weir Group pledges fresh inquiry into
£2.5 million 'bribes' to Saddam"
[Oct 2005]

WSP International faces
Indonesia graft inquiry"
[Aug 2006]

Birmingham City FC
Corruption raid on Premier
League club"
[March 2008]

Compass profit halved as UN
investigation continues"
[Nov 2005]

De La Rue confirms that a
police investigation is being
conducted at the Company
(July 2007)

"Bribery probe for
DaimlerChrysler
[Aug 2005]

AWB chief grilled on
'bribe' plan"
[Jan 2006]

Vetco hit by record fine
for bribes"
[Feb 2007]

Sainsbury
"Potato buyer arrested over
alleged £3m bribe from Greenvale"
[March 2008]

ABB discloses
possible bribery"
[Feb 2006]

Siemens "fined €201m by
German court in bribery case"
[Oct 2007]

"Former **Wembley** chief jailed
for bribery attempt"
[Oct 2005]

BHP Billiton denies trying to
bribe Saddam with wheat"
[March 2006]

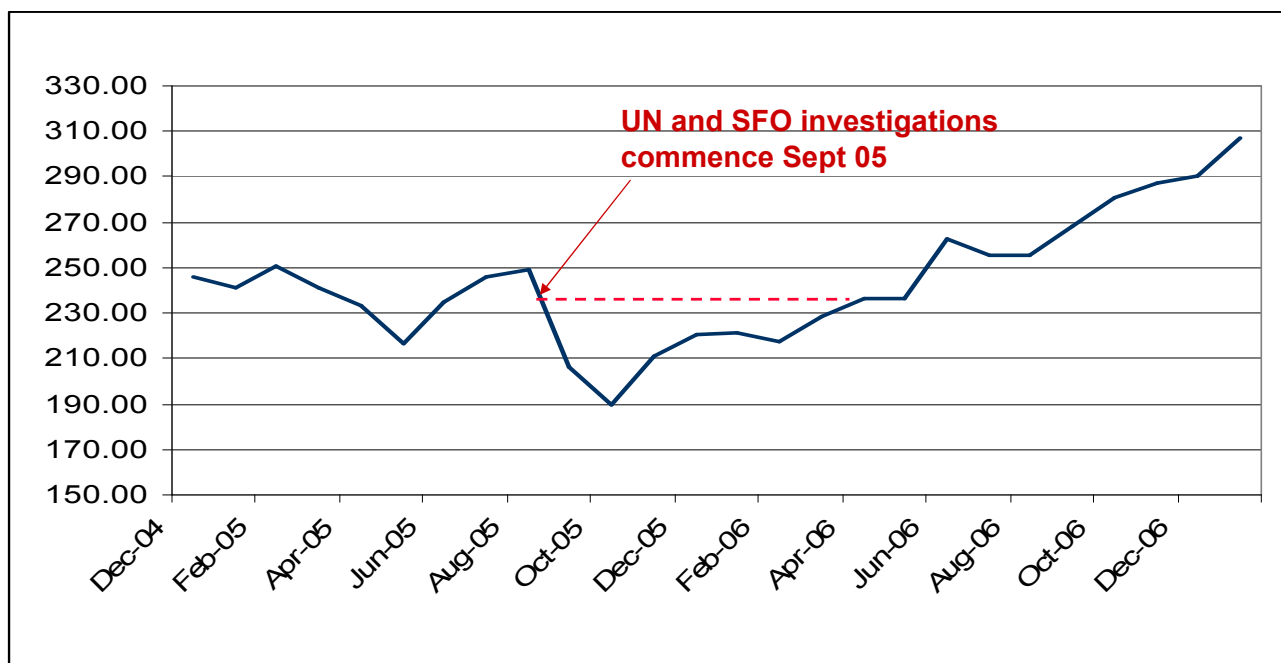
BAE in spotlight over
Tanzania radar deal"
[Sept 2007]

At what risk to company?

- ◉ Reputation and public opinion
- ◉ Catalyst for other corporate crime and vice versa
- ◉ Adverse ratings and risk of contract blacklisting
- ◉ Diversion of resource and employee morale
- ◉ Impact on customers, suppliers and partners
- ◉ Costs, legal, accounting, IT support, PR management etc
- ◉ US dimension
- ◉ Criminal conviction
- ◉ Share volatility, bank loans, covenants etc

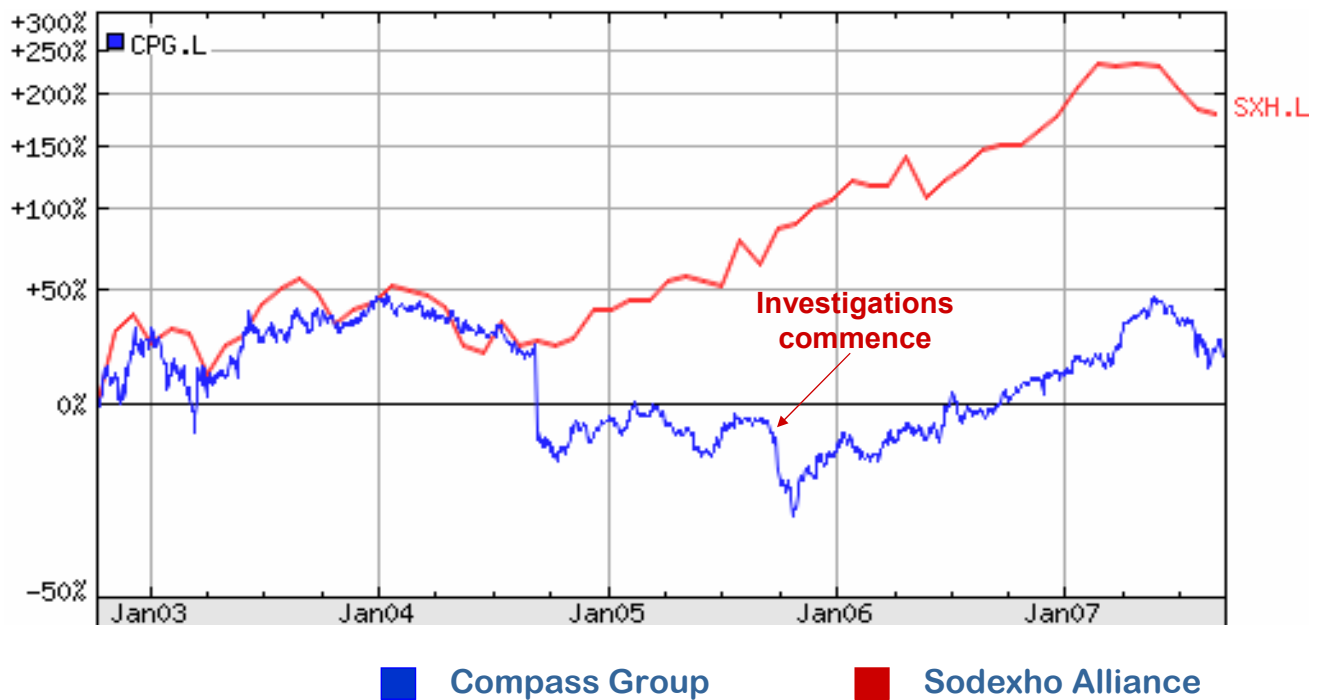


Share volatility: Compass Group



= 24% decline between Aug 05 and Oct 05
and did not recover value until June 06

Share volatility: Industry comparison (main competitor)



Share volatility: FTSE 100 comparison



Corporate attitudes

Approach to anti-corruption



Self deception

- Arrogant leadership
- Showcasing
- Complexity



In denial

- Unaware
- No leadership
- Poor administration



Best practice

- Embedded processes
- Business benefits
- More sustainable



The Best Practice corporation

Actions

Policy:

- ◉ Ethics
- ◉ Compliance
- ◉ Code of conduct
- ◉ Gifts and hospitality

Process:

- ◉ Robust with accountability
- ◉ Auditable
- ◉ M&A and IPO
- ◉ Part of strategy and normal business process

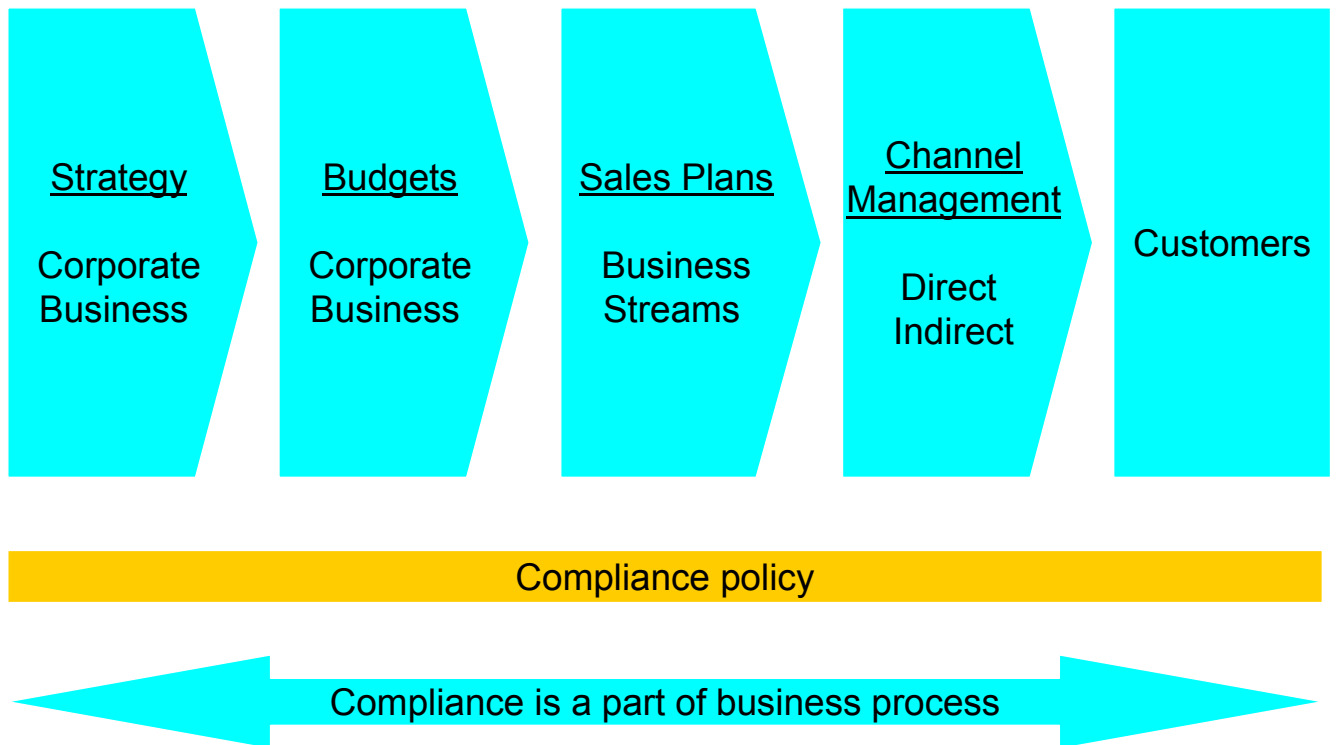
People:

- ◉ Zero tolerance of corruption
- ◉ Composition of the Board
- ◉ Independent due diligence of all third parties
- ◉ Risk monitoring

Communications:

- ◉ Training and education
- ◉ Disclosure in reports
- ◉ Openness in business
- ◉ Known for high standard of integrity

Approach to market (sales side)



Summary

- ◉ People bribe, not companies
- ◉ Business people ~ restrained by some processes to conceal wrong doing (Criminals do not have same restraints)
- ◉ Companies provide environment for bribery to flourish
- ◉ Governments dictate the rules of game and playing field
- ◉ Weak corporate compliance regime catalyses other crime
- ◉ Companies do not have to bribe to win contracts
- ◉ Companies benefit when compliance process is embedded in business strategy
- ◉ For investigators and prosecutors ~ understanding the business processes and culture matters

“Changing business risk into business value”



- ⦿ **Anti-corruption audit**

AbcSure® audit tool to determine the level of corruption risk mitigation in a company's compliance policies and business processes

- ⦿ **Risk assessment and specific research**
for markets and projects

- ⦿ **Reputational due diligence for third parties**
in context of applicable law, market and the corruption environment

- ⦿ **Consultancy and training**
Delivering tailored anti-corruption mitigation processes, both internal and external

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