

CSR ASIA SUMMIT

“CULLING CORRUPTION” SCENARIOS

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INTRODUCTION

These examples are all based on real-life case studies. Some are relatively straightforward, while others involve ‘grey areas’. The objective is to illuminate the kinds of problems that international companies may face, and to throw light on the issues that they need to address with their integrity programmes, rather than to find right or wrong answers.

Political and economic context

These scenarios are all set in the fictional country of Kagura in South-east Asia. In the last 20-30 years it has had a history of governance problems, but it now seems to be overcoming them through a far-reaching political and economic reform programme led by President Tozai Sen, who has been in power for the last five years. These governance reforms are already bearing fruit. The country has enjoyed steady growth rates; it has an expanding middle class; and there is an extensive infrastructure development programme that will bring further benefits as the country progresses.

From an integrity/governance point of view, the following points should be noted:

- In Transparency International's *Corruption Perception Index*, Kagura has a rating of 3.1 on a scale of 1-10 where 10 stands for the highest levels of integrity.
- Although it has a substantial population (55m), key decisions tend to be dominated by a small elite based in the national capital, Kagura City.
- Despite the governance reform programme, bureaucratic procedures tend to be slow. Individual government officers at every level enjoy a high degree of personal discretion with limited oversight.

CASE STUDIES

1. The CEO's visa application

Sam Lee has been appointed to lead ABC Co's new Kagura operation. A few weeks after his arrival, he hears that his CEO is coming out to meet ABC's most important client. However, his visa application has to be approved locally as well as at the embassy in ABC's headquarters country, and he knows that the official concerned has a large pile of applications waiting to be processed. It is likely to take at least three weeks for the CEO's application to get to the top of the pile, and the meeting is scheduled for next week.

One of his local staff members has a friend in the Visa Department. He explains that it will be possible to expedite the visa for an unofficial extra fee of \$250. Of course there will be no receipt.

The CEO is looking forward to his visit, and has already checked out the local restaurant list. You want to keep both him and the client happy. What will you do? What alternatives are there?

2. Selecting professional services

Sam's first weeks in the country have been plagued by problems with customs clearances, first of his personal possessions and then of essential equipment. ABC will be making regular shipments in future, and can scarcely afford delays. Sam has already discovered the local 'Irish' pub and, over a glass of Guinness, he discusses his problem with the customs with Humphrey Toastrack, a veteran expatriate who has lived in the country for 20 years.

Humphrey laughs and says that it is easy to handle this kind of problem. You employ Sunshine & Co, a firm of shipping agents, and they sort out everything for you. They are a well-known local firm, and their fees are reasonable. It's possible that they pass on part of their fees to the customs officers in the form of small tips. But so what? They get the job done.

Is this the answer? Does ABC need to worry about the small tips paid to customs? What risks are there, and how should ABC manage them?

3. A friendly intermediary

ABC is currently bidding for a \$10m contract to design the new Kagura City International Airport.

It is an open secret that no one wins a major contract in Kagura unless the President's family is somehow involved. Fortunately ABC knows just the man. Musa Sifarish is an old school friend of one of Sam Lee's colleagues. He is himself a cousin of the President, and his brother is Minister of Transport Aviation. It is understood that he serves as representative of a major British defence company (whom he will not name), and he has an excellent success record.

From Musa's point of view, a \$10m contract is rather small beer (not that he drinks), but for friendship's sake, he is happy to take it on according to the usual terms – a 20% success fee, not including a non-refundable advance payment of \$100,000 for routine entertainment expenses.

What does ABC need to know about Musa? Under what conditions should it work with him?

4. Charitable project

ABC is sponsoring an architectural conservation project as part of its public relations programme. The project involves the restoration of a pre-colonial temple with spectacular frescoes. Unfortunately the frescoes are beginning to peel off because of a chemical reaction which has led to the decomposition of the plaster. There is only one company in Kagura that knows how to handle the problem. It turns out that it is run by Asakusa Sen, a cousin of the President, and it charges particularly high fees.

Is there a problem? What can ABC do to mitigate any integrity-related risks?

5. A brush with the tax authorities

Sam Lee has had a bad week. On Monday he had to sack George Chikatetsu, his locally recruited finance manager. Chikatetsu had negotiated a major contract with a local sub-contractor without declaring that the company concerned was owned by his son. Sam decided that this was an unacceptable conflict of interest, and sacked him on the spot.

It's only Wednesday, but Sam already has another problem. A Tax Inspector made an unannounced visit, and asked to see the company's books. He only spent 20 minutes reading through the files (perhaps he knew what he was looking for?) before identifying what he described as a major problem. ABC would need to pay a fine of \$900,000.

At first the inspector wanted Sam to sign a document admitting liability straightaway. Then he softened, and said that he could have a day's respite before deciding what to do. As a friendly tip, he also mentioned that Tokoro Bros, a local accountancy firm, was used to handling these problems, and might be able to help. Sam rang Tokoro Bros straightaway. They were absolutely sure that they could solve the problem – no worries. However, they estimated that it would cost \$200,000, and their terms of business were that they expected the fee in advance.

Sam rang the ABC head office to ask for advice, but the office was already closed, and everyone was out celebrating a recent sports victory, with their mobile phones switched off. The tax inspector had told Sam that he would need a decision by 9.30 am the following morning. He mentioned that Sam might need to make a court appearance.

What should Sam do? What can ABC do to anticipate and avoid this kind of problem? What should it do now?

6. Getting the right signature

ABC is the lead operator in a major new housing project which, among other attractive features, involves the use of solar power to provide electricity. The President of Kagura has already given his approval, and welcomes the project as a sign of his country's growing technological prowess. Now, the only thing needed for the project to go ahead is the signature of the Deputy Minister for Economic Planning.

ABC has sent all the papers to the Ministry and, as far as it knows, everything is in order. But the signature hasn't come. ABC waited patiently for several weeks, and then made a series of polite enquiries by both formal and informal channels. There has been no result, and the company is getting increasingly anxious.

Last week, a Mr Johannes Dorobo from Kagura City made an appointment to meet the head of the property team at ABC's Sydney head office. He explained that he had heard of ABC's problems (when asked how, he smiled knowingly, and said that Kagura was a small society), and was confident that he could help resolve them. He knows the Deputy Minister personally, and his brother is a former senior official in the same Ministry.

Of course Dorobo wants a 'success fee' and – confident of his success – he wants it paid in advance to an account in Lichtenstein. Bearing in mind the size and importance of the project, he is thinking of something in the order of \$400,000, a fee which – he suggests - amounts to little more than 'small change'. Anticipating one question, he adds that he has read ABC's *Business Integrity Policy* on the website. He is delighted to deal with a company that has such high standards, and is of course more than willing to sign a formal undertaking that he will not pass on any part of his commission as a bribe.

What should ABC do? Is there a way of structuring the arrangement with Dorobo to protect the company's interests? Are there any other strategies that ABC might adopt to secure the project?

7. Sex, lies and contract frustration

ABC signed up to a joint venture with Mita Sen (everyone in this country seems to be called 'Sen'). Mita has the perfect credentials: educated at the elite St Aloysius High School, Hong Kong University, and the Brixton Law School. He knows everyone in Kagura, including the President, and the leading ministers.

ABC commissioned an integrity background check as part of its due diligence review (from one of Control Risks' competitors, unfortunately). The report raised questions about whether Mita constituted a 'Politically Exposed Person': he had been active in student politics in his 20s, and had briefly served as a junior minister, but now appears to be solely engaged in business. After discussions at the highest level, ABC decided to go ahead.

It turns out that Mita is politically exposed, but not quite in the manner that ABC had anticipated. He had an affair with the President's daughter, which turned sour. Now the President is out to discredit him, and has ordered the secret police to find anything that could be used against him.

It seems out that there is quite a catalogue, but the story of most concern to ABC is the revelation that Mita had paid part of his commission to secure government permission for ABC's flagship commercial project in Kagura. ABC is concerned that it may be caught up in the scandal.

What can ABC do to protect itself from this kind of scenario? What does it do now?