



## Presentation to HKARMS & HKIE on Mitigating Corporate Risks in Asia

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International Risk is an FTI Company



## Presentation Outline

- About FTI-International Risk
- Risk Mitigation – The Concept
- Keys Risks in Asia - Survey of Top Firms
- Why Risks to Multinationals are High in Asia
- Main Operational Risks
- Fraud and Corruption
- How to Overcome Challenges through Investigative Due Diligence
- Key Factors to Mitigate Risk
- Essential Business Controls

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## About FTI-International Risk

- FTI-International Risk ([www.intl-risk.com](http://www.intl-risk.com)) is a subsidiary of NYSE-listed FTI Consulting Inc. ([www.fticonsulting.com](http://www.fticonsulting.com))
- Leading provider of comprehensive business risk solutions including investigative due diligence services, fraud & corporate investigations, business intelligence, brand protection & IP strategies, political risk assessments and crisis containment services to the world's leading organizations
- Has a proven record and reputation for **integrity**, **independence** and **insight**
- Led by Steve Vickers & a team of seasoned professionals with extensive high-level investigative, security, corporate & political risk experience
- A global business operating across Asia, India, Russia, Europe and the US



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## FTI-International Risk – Core Services

### Business Intelligence Services

- Investigative Due Diligence
- Pre-IPO Investigative Due Diligence
- Business Intelligence Investigations
- Political Risk Assessments
- Competitor Assessments

### Fraud & Corporate Investigation Services

- Fraud Investigations
- Asset Searching Investigations
- Conflict of Interest Investigations
- Insurance Claim Investigations
- Litigation Support
- Electronic Evidence Recovery

### Corporate Governance Svcs

- Anti-Money Laundering Consulting
- Fraud Prevention Programs
- Anti-Corruption Programs
- Regulatory Compliance Audits
- Social Compliance Investigations
- FCPA Investigations & Audits

### Brand Protection Services

- Strategic Management of IP Risks
- Investigations into IP Losses
- Licensing Dispute Investigations
- Grey Market & Parallel Trading Investigations
- Market Surveys



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## FTI-International Risk – Core Services

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|--|---|
| <p><b><u>Corporate Security Services</u></b></p> <ul style="list-style-type: none"> <li>• Physical Security Audits</li> <li>• Threat Assessments</li> <li>• IT Security Audits</li> <li>• Executive Protection Programs</li> <li>• Technical Counter Measures</li> <li>• Contingency Planning</li> </ul> | <p><b><u>Supply Chain Integrity Services</u></b></p> <ul style="list-style-type: none"> <li>• Vendor &amp; Distributor Screening</li> <li>• Supply Chain Ethics Consulting</li> <li>• Distributor Fraud Investigations</li> <li>• Procurement Fraud Investigations</li> <li>• Ethics Hotline Management</li> </ul>                  |
| <p><b><u>Crisis Management Services</u></b></p> <ul style="list-style-type: none"> <li>• Crisis Containment Services</li> <li>• Strategic Management of Business Crises</li> <li>• Kidnap &amp; Ransom Consulting</li> <li>• Malicious Product Tampering &amp; Extortion Consulting</li> </ul>           | <p><b><u>Employee Integrity Services</u></b></p> <ul style="list-style-type: none"> <li>• Pre-Employment Screening</li> <li>• Code of Ethics Training</li> <li>• Employee Corruption Investigations</li> <li>• Ethics Hotline Management</li> <li>• Employee Exit Risk Management</li> <li>• Sexual Harassment Inquiries</li> </ul> |



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## Where We Have Executed Work Globally

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| <p><b><u>Asia Pacific:</u></b></p> <ul style="list-style-type: none"> <li>• Australia</li> <li>• Bangladesh</li> <li>• Brunei</li> <li>• Cambodia</li> <li>• China</li> <li>• Fiji</li> <li>• Hong Kong</li> <li>• India</li> <li>• Indonesia</li> <li>• Japan</li> <li>• Korea</li> <li>• Laos</li> </ul> | <ul style="list-style-type: none"> <li>• Macau</li> <li>• Malaysia</li> <li>• Mongolia</li> <li>• Myanmar</li> <li>• New Zealand</li> <li>• Philippines</li> <li>• Singapore</li> <li>• Taiwan</li> <li>• Thailand</li> <li>• Vietnam</li> </ul> | <p><b><u>Rest of the World:</u></b></p> <ul style="list-style-type: none"> <li>• Brazil</li> <li>• Bulgaria</li> <li>• BVI</li> <li>• Canada</li> <li>• Cayman Islands</li> <li>• Congo</li> <li>• Dubai</li> <li>• France</li> <li>• Germany</li> <li>• Holland</li> <li>• Israel</li> <li>• Italy</li> <li>• Kazakhstan</li> <li>• Liechtenstein</li> <li>• Netherlands</li> </ul> |
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|  |
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| <ul style="list-style-type: none"> <li>• Papua New Guinea</li> <li>• Russia</li> <li>• Samoa</li> <li>• Saudi Arabia</li> <li>• Seychelles</li> <li>• South Africa</li> <li>• Spain</li> <li>• Sweden</li> <li>• Switzerland</li> <li>• Turkey</li> <li>• UAE</li> <li>• USA</li> <li>• UK</li> <li>• Ukraine</li> </ul> |
|--|

# Where We Have Executed Work in China

## North & Northeast

### Municipality: Beijing, Tianjin

- Hebei Province: Shijiazhuang, Baoding, Tangshan,
- Shandong Province: Dongying, Linyi, Qingdao, Weihai, Rizhao, Weifang, Taian, Linyi, Jinan
- Henan Province: Kaifeng, Zhengzhou, Xinxiang, Chuzhou
- Heilongjiang Province: Harbin, Daqing
- Liaoning Province: Dalian, Yingkou, Shenyang

## West

### Municipality: Chongqing

- Shaanxi Province: Xi'an
- Xinjiang Province: Urumiqu
- Inner Mongolia: Horhot, Tongliao
- Sichuan Province: Chengdu, Ganzi,
- Yunnan Province: Kunming

## Mid

- Hunan Province: Changsha
- Hubei Province: Wuhan

## South

- Guangdong Province: Guangzhou, Shenzhen, Dongguan, Shunde, Zhuhai
- Guangxi Province: Nanning, Liuzhou
- Hainan Province: Haikou

## East

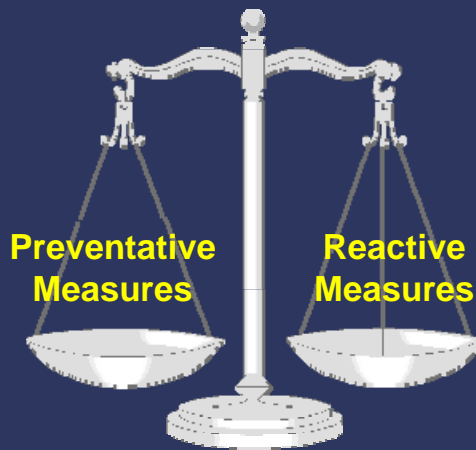
### Municipality: Shanghai

- Jiangsu Province: Nanjing, Lianyungang, Wuxi, Jiangyin, Xuzhou, Suzhou, Nantong, Huaiyin, Yixing, Taizhou, Kunshan, Jingjiang
- Zhejiang Province: Hangzhou, Wenzhou, Jiaxing
- Fujian Province: Fuzhou, Quanzhou, Xiamen,
- Anhui Province: Chizhou, Hefei



## Risk Mitigation

### A Considered Balance





## Today's Business Risks

- Fraud
- Corruption
- Theft
- Business disputes & litigation
- Lack of accurate & timely intelligence to do deals
- Economic espionage
- White collar crime
- "Red" collar crime (PRC)
- Cybercrime
- Threats to Brands
- Threats to Intellectual Property
- Insecure data & communication
- Political instability
- Terrorism & sabotage
- Organised crime
- Money Laundering & Reputational Risk

FTI-International Risk Survey of corporate clients operating in Asia



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## Risks To Multinationals in Asia Are High

- Non-transparent business environments
- Poorly developed legal systems
- Insufficient and unreliable market and business information
- Rapid and confusing change
- "Moaning" that Asia is not the same as the EU or the USA will not work. MNCs need to be here - **this is where the action is!**



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## Main Operational Risks

- Selection of bad JV partners. Companies are very opaque. Many MNCs neglect to perform investigative due diligence and get “badly burned”
- Adopting a purely legalistic approach to a necessarily “hands-on” business – **THIS IS ASIA!**
- Ugly situations during down-sizing
- Unchecked corruption
- Systems & controls non-relevant to threat
- Catastrophic brand protection problems



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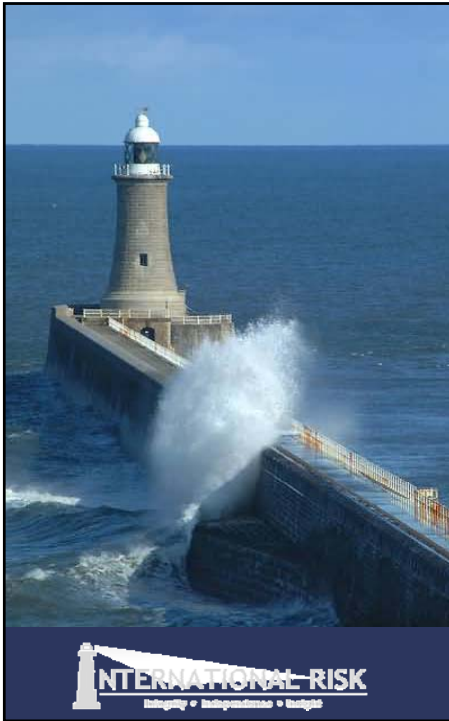
## Main Operational Risks

- **Major intellectual property fraud - R & D leakages** carried out by MNC's own local Internal Management
- Major **counterfeiting activity / collusion** by internal staff and outside parties resulting in real distribution channels being used to distribute counterfeit product or outdated drugs and pharmaceuticals
- **MNC's losing complete control of their brand** and licensing rights through “**brand hijacking**”
- Exposure to risk from poor quality control issues
- Money laundering & corruption operating unchecked



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How an MNC's  
Structure Can Impact  
Adversely on Risk and  
Make it  
More Vulnerable

**INTERNATIONAL RISK**  
Integrity • Independence • Insight



Multinationals At Risk in Asia

The **structure and organisation** of some multinational companies can be a factor in making them **MORE vulnerable** to risk in emerging markets

**INTERNATIONAL RISK**  
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## Multinationals At Risk in Asia

If **3 or more**  
of the following factors  
apply to your corporation,  
you are at a **higher risk**



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## Multinationals At Risk in Asia

### Factors

- Multinational concerned utilized a matrix management system
- Multinational concerned had recently been through a business process re-engineering exercise or significant restructuring
- Expatriate management rotated every two years or so
- Local staff turnover was high



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## Multinationals At Risk in Asia

### Factors

- Internal controls were insufficient or not appropriate to the Asian environment
- Where present, sophisticated controls or “fire-walls” failed to allow for collusion amongst staff in different departments
- Insufficient pre-employment screening was in place and recently hired executives were permitted to recruit personnel from their previous companies
- AML programmes were “wooden” or not relevant to local circumstances



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## Multinationals At Risk in Asia

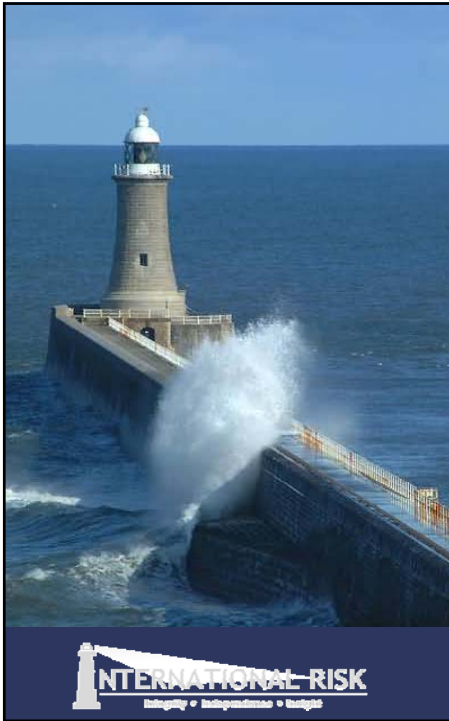
### Factors

- External accounting procedures were weak and internal audit was reluctant to confront local management
- Previous early warnings or minor fraud incidents had been covered up for internal corporate or political reasons
- Morale was low



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**INTERNATIONAL RISK**  
Integrity • Independence • Insight

## Fraud & Corruption



**INTERNATIONAL RISK**  
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## Fraud & Corruption

Extract from Transparency International – Global Corruption Report 2008 ([www.transparency.org](http://www.transparency.org))

### Least Corrupt

1. Denmark, Sweden, New Zealand
4. **Singapore**

### Most Corrupt

158. Angola, Azerbaijan, Burundi, Congo Republic, Gambia, Guinea-Bissau, Sierra Leone, Venezuela,
166. **Cambodia, Kyrgyzstan, Turkmenistan, Uzbekistan,** Zimbabwe
171. Dem Rep of Congo, Equatorial Guinea
173. Chad, Guinea, Sudan
176. Afghanistan
177. Haiti
178. Iraq, **Myanmar**

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## Fraud & Corruption – Asian Countries

Position of Other Key Asian Countries:

12. **Hong Kong** (with Austria)
18. **Japan** (with Belgium & USA)
39. **Taiwan**
40. **South Korea**
43. **Macau** (with Bahrain)
45. **Bhutan** (with Czech Republic)
47. **Malaysia** (with Cape Verde, Costa Rica, Hungary & Jordan)
72. **China** (with Bulgaria, FYR Macedonia, Mexico, Peru, Suriname, Swaziland & Trinidad & Tobago)
80. **Thailand** (Brazil, Burkina Faso, Morocco, Saudi Arabia)
121. **Nepal & Vietnam** (with Nigeria, Sao Tome & Principe & Togo)
126. **Indonesia** (with Eritrea, Ethiopia, Guyana, Honduras, Libya, Mozambique & Uganda)



## Fraud

Fraud is the #1  
non-operational factor  
leading to business failure  
in Asia



## A Working Definition for Fraud in the Corporate Environment

*Any dishonest behavior by which one person intends to gain a dishonest advantage over another*



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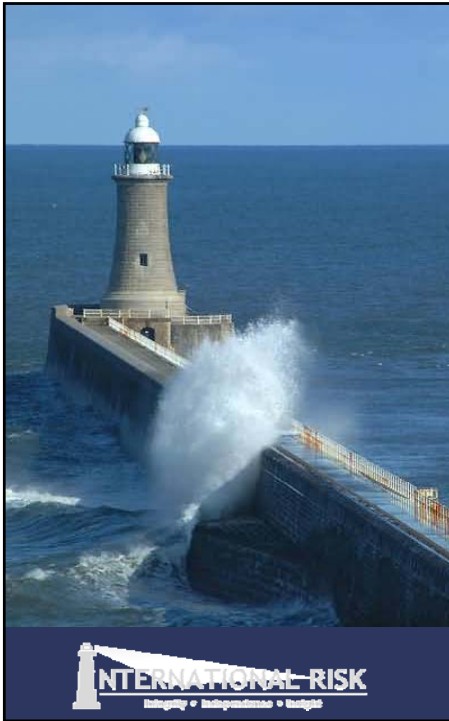
## The True Situation

- Don't believe government crime statistics - they do not show the complete picture
- No two jurisdictions use the same definitions - so, comparisons are meaningless
- Fraud is significantly under-reported
- Don't believe fraud surveys - they are often misleading and why should a company tell an outsider that they have a fraud problem?



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## Key Factors to Mitigate Risk



## Managing “Off-Balance Sheet Risk”

- Understand the areas where fraud can occur and reduce the risks in these areas
- This type of fraud risk management is a continuous process
- As your company evolves and changes, so do the risks
- Do not depend on your auditors to prevent fraud
- Be aware of the risks associated with new technologies and ensure that the IT function and compliance and security functions operate in close concert



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## Essential Business Controls

- ☑ Honest Employees
- ☑ Strong Internal Controls
- ☑ Strong and Visible Deterrents
- ☑ Clear Management Responsibility
- ☑ Clear Reporting Lines



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## FTI-International Risk Availability

# Thank You!

24-Hour Crisis Hotline  
(852) 9196-2350

[www.intl-risk.com](http://www.intl-risk.com)

*International Risk & Investigations*



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