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The network for doing business

'See no evil, hear no evil, speak no evil' – an increasingly outdated practice within corporate boards faced with corruption.

'PERSIST & PREVAIL': HOW TO CONFRONT CORRUPTION

Economic policies, trade regulatory controls and cultural changes are working together to withstand the pressures of corruption.

Western governments in particular, seeking to root out corruption, have compelled company boards to take account of financial and reputational penalties, which may far outweigh the value of a business deal.

Yet, although Western companies can no longer regard bribery as 'a cost of doing business', those with global interests still face decisions which bring their legal and ethical standing into question – and they still face huge disadvantages against competitors – in jurisdictions where regulations are not enforced.

Take, for example, a genuine scenario faced by executives in a global corporation operating in the developing world. A local political leader demands payment to help settle a labour dispute that he has engineered. He implies that if the corporation refuses, the outcome could be unpredictable and bad for business. Eventually, he agrees to accept a payment to a school for orphaned children that he runs. Would you pay?

Some of the world's most admired and well-managed corporations — all with codes of conduct, written policies, and seemingly tight controls — have grappled with these sorts of dilemmas, especially in the developing world, for years. But nowadays corporate exposure to bribery and fraud is rising up the boardroom agenda driven by two factors.

The first is the greater exposure of corporations to growth opportunities in emerging markets which have a history of corruption. The second is rising government backlash against corporate wrongdoing in both developed and developing markets.

In China, for example, the government appears increasingly determined to blame and shame corrupt officials as it roots out the long-standing culture of backhanders (although political grievances can be the motivation); in India, an important new law has been enacted to curb corrupt politicians, ministers and bureaucrats.

> The toughest corruption issues for multinationals, regardless of their country of origin, are rarely the big-ticket scandals and scams that make headlines.

In Turkey, protesters against corruption have taken to the streets. In Brazil, senior political figures have been jailed.

Governments in countries such as the US, Germany and the UK are strengthening and enforcing their own anti-corruption and anti-bribery laws more vigorously, notably the US Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act. These efforts make companies increasingly liable not just for the conduct of their employees but also for the actions of their intermediaries, such as consultants, agents and joint-venture partners.

The toughest corruption issues for multinationals, regardless of their country of origin, are rarely the big-ticket scandals and scams that make headlines. Rather, as in the example above, executives are faced with subtler, but more pervasive, forms of fraud and corruption, such as pressures for payments on routine transactions.

These 'quiet killers' of ethical business practices are what really make it difficult for international executives to win business and do business profitably, while still 'doing the right thing'. So boards are increasingly looking to protect themselves, and their corporate reputations, by intervening at a level beyond policies and controls and building a culture of ethics and compliance.

WHAT CONSTITUTES CORRUPTION?

Bribes

Companies routinely get into trouble when managers make payments to win a business contract, gain regulatory approval of a product, reduce their taxes, or avoid customs duties. In some jurisdictions laws are in place to prohibit managers from offering anything of value to a government official, political party, or party official with the intent to influence that person or secure an improper advantage in obtaining or retaining business.

But, in practice, managers seldom make payments directly. Instead, payments usually involve agents or dealers, tapping into unaccounted pools of cash, sponsoring foreign travel, providing extravagant gifts or entertainment, and making charitable contributions to non-governmental organisations recommended by government officials and politicians.

Speed money

A bigger problem for companies is the demand for small payments to facilitate routine transactions and services. 'Speed money' is a payment for enticing an official to do something faster.

Many companies encounter demands for speed money, especially from government officials, but also increasingly from employees in the private sector — for example, for clearing shipments, getting permits or licences, or registering land deals. For some businesses starting a venture, every step is paved with 'red tape' and demands for 'grease payments'.

Extortion

Rogue bureaucrats in certain developing countries sometimes seek to extract money by making credible threats against a business, or the lives of its executives. Some companies find it easier to pay up than to run the risk of being held hostage.

Employee fraud

Increasingly, the biggest corruption threat facing companies is the risk that their own employees may be fraudulent. Causes include rising corporate pressures to deliver improved financial performance. Greed also drives an employee to succumb to kickbacks from vendors and agencies; commissions on real-estate transactions or machinery purchases; deposits in overseas bank accounts on successful acquisitions and sales of companies.

HOW DO YOU AVOID CORRUPTION?

Boards of directors must build their own internal regulatory controls and enable pressured executives to seek confidential support when faced with corruption pressures. But, beyond that, boards have an extended duty of care to their employees to develop, communicate and immerse themselves in a robust culture that is able to withstand pressures when they arise.

THE BASICS

Too few companies pay adequate attention to compliance, mainly because businesses usually allocate budgets for audits and compliance reviews in proportion to revenues, and individual emerging markets often still contribute relatively little to revenues.

According to one fraud survey (*Overcoming compliance fatigue: Reinforcing the commitment to ethical growth, 13th Global Survey*, Ernst & Young, 2014) only 35% of companies have taken action against corrupt employees (perhaps for fear of corporate reputational damage), and one-fifth of respondents state that their companies do not have policies in place, or they are unaware of them.

In another survey *(2011/2012 Global Fraud Report*, Kroll) less than one-third of respondents say their foreign employees, vendors and managers are trained to be both familiar and compliant with the UK Bribery Act and the US FCPA. Cultural and geographic distance can further lead to overdependence on local management to the point of abdication.

Other questions that boards need to answer, says McKinsey & Company, are:

- **Has your company instituted a formal code of conduct that every employee has to recertify annually?**
- **Is there mandatory training on compliance, with appropriate rules and regulations for customer-facing employees?**
- **What is the preapproval process for discounts, gifts, travel, entertainment expenditures and charitable contributions?**
- **How is the company's code of conduct communicated to customers, dealers and partners?**
- **Do customers know the entertainment and travel reimbursement policies of the company?**
- **How does the company deal with a problem?**
- **Is investigation swift and punishment decisive and fair?**

COMPLIANCE RESOURCE

Companies, focused on head-count, have a tendency to underinvest in staffing compliance functions such as internal audit and legal. Managers who understand local laws and regulations, possess the skills to work with government officials, and can get things done without paying bribes, enable companies to avoid shortcuts that expose them to exploitation by the unscrupulous. Reputational damage and distraction to counteract it once in place usually costs much more than prevention.

LEADERSHIP VISION

"In hierarchical cultures, bribery and corruption depend largely on the tone from the top," says one leading fraud expert. Global companies need to hold their country CEOs accountable for zero-tolerance compliance with their codes of conduct and culture, as well as with the laws of their 'host' country.

Leaders need to 'tough it out' in emerging markets without making compromises and accept that there are real consequences and real costs for those who uphold ethical behaviour, especially in the short term. Some business may be lost, budgets may be missed, approvals may take more time, and officials may respond angrily. When fraud is discovered, such leaders should not feign ignorance and respond with shock and dismay, making middle managers and frontline employees the scapegoats. Leaders need to publicly support anti-bribery laws, speak out against corrupt practices in their industry, and explicitly acknowledge in financial reports loss of business that results from adherence to ethical principles.

As the head of one Indian IT company says:

> "We ask our people to persist and prevail, not to take shortcuts. The message is simple: we will work alongside you. We will not hold it against you if a project gets delayed or we lose money; we will do what is right, not what is convenient. Over time, people will know what is acceptable here and what is not."

CORRUPTION: how to bite back

What can you do when you lose a government contract because the winning party paid a bribe?

The United Nations (UN) Convention against Corruption addresses many issues, including public and private sector preventative actions, criminalisation standards and obligations for signatories relating to bribery, trading on influence, money-laundering, and various other forms of corrupt activities.

It also provides for cooperation by government investigators and prosecutors across national boundaries in the enforcement of anti-bribery and anti-corruption laws.

Article 35 also provides for private rights of action for the victims of the illegal activities against those involved:

COMPENSATION FOR DAMAGE

Each State Party shall take such measures as may be necessary, in accordance with principles of its domestic law, to ensure that entities or persons who have suffered damage as a result of an act of corruption have the right to initiate legal proceedings against those responsible for that damage in order to obtain compensation.

Countries around the world have signed this accord. The US, which prosecutes corruption aggressively under its Foreign Corrupt Practices Act, has declared that existing laws provide adequate remedies for private parties to sue for recovery under this Article.

The UN says that governments are taking anti-corruption seriously:

“Bribery is normally perpetrated by large companies and tends to keep smaller, growing local companies from securing government and other contracts that they need if they are going to become major employers and contributors to the local economies.

"Bribery also raises the costs to the local government for the products and services the community requires. Of course, governments get their money from the taxes paid by the people of the country. The higher the costs of government contracts given to corrupt foreign companies the higher taxes must be on locals to pay for these services. Governments are increasingly recognising bribery is a 'lose-lose' arrangement for not only the people but the government as a whole."”

Annual reports on efforts to reduce corruption are filed with the UN. Transparency International uses these reports and other data gathered independently to rank countries in its Corruption Perceptions Index.

In fear of reprisals for payment of bribes, companies are moving operations to countries with high anti-corruption ratings. All of these pressures and the growing world market are driving a reduction in the acceptability of corruption.

UHY member firms offer business services providing information, guidance and employee training on compliance issues and corporate ethical behaviour. Details are at www.uhy.com

ON THE CUSP OF A REVOLUTION

Digital technology is changing the way we consume products, the way we use data… in fact, almost every strand of lifestyle is being enhanced by digital.

For the healthcare and life sciences industry, it has come just in time, as the increasing burden of chronic disease among ever-ageing global populations threatens to overwhelm already overstretched systems and services.

Digital has the capacity to deliver efficiencies and cost savings that will make healthcare viable again. Not only that, it offers the prospect of a transformation in the way pharmaceutical companies research, produce and market their products, and how patients receive many of them.

The term to conjure with is 'mHealth'. Mobile health is not only coming to the rescue of healthcare in the developed world, it has the power to transform healthcare across the developing world, leading to increased longevity, still bigger urban populations and increased opportunity for investment.

DEVELOPING WORLD

As the number of mobile tariff subscribers rises, (in sub-Saharan Africa, for example, subscriber penetration has been predicted to reach 42.2% by 2020) the accessibility of apps such as Med Africa, which gives users in Kenya access to health information, will increase the level of patient education and improve disease outcomes.

mHealth is behind reductions in child mortality rates in the developing world. In 2000, out of every 1,000 live births, 90 children died before the age of five. Now the average is 46. The United Nations (UN) says 17,000 fewer children are dying every day. Childcare charity UNICEF calls this "one of the most significant achievements in human history".

One of the biggest success stories is in Rwanda. Between 2000 and 2015, Rwanda achieved the world's highest average annual reduction in both the under-five mortality rate and the maternal mortality ratio.

The UN estimates that 590,000 children have been saved in Rwanda from the four top killers – malaria, diarrhoea, pneumonia and malnutrition: diseases which can be treated by simple intervention.

Community health workers at each village (with the one job requirement that they had to be able to read and write) were trained in simple intervention skills, not given a regular salary, but paid for what they achieved, such as the number of vaccinations they gave to children.

A mobile technology company working with the government introduced

‘RapidSMS’, enabling the 45,000 community health workers to have rapid communication with healthcare professionals further up the healthcare chain through a simple picture message format on a cell phone.

The child or mother is registered in the system. The community health worker keys in codes to register symptoms. If any immediate feedback is required, messages are relayed back to the community health worker, enabling him or her to accompany the patient to a clinic for treatment, avoiding delay which in the past was often a cause of death.

DEVELOPED WORLD

But digital is also revolutionising healthcare provision in developed markets, as basics such as appointment bookings go online, and people take more control of their own health through fitness and nutrition apps.

mHealth has the potential to change almost every aspect of the ‘patient journey’, improving both the efficiency of healthcare provision and outcomes for those who receive it.

Digital is already fulfilling elements of diagnosis. For example, one app turns a smartphone into a lab test reader for conditions such as kidney disease and diabetes.

Digital has also had a role to play in communicating with patients about their diagnosis and ensuring that all professionals involved are fully informed.

Digital makes it easier for people to be paid promptly: the InstaMed Go app collects payments at each stage of treatment and helps patients understand the financial implications of alternative approaches to treatment.

mHealth has probably made the biggest impact so far on healthcare maintenance – tools and technologies, such as app-based reminders designed to ensure patients take their medication as prescribed – reducing waste, improving patient outcomes and collecting data.

Developers are using video gameplay technology to create interactive tools that enable pharmaceutical companies to engage and interact with patients.

Better data leads to better choices by professionals. Pharmaceutical companies use apps to educate physicians about their drugs and build greater brand loyalty, and QR codes to track inventory along the supply chain.

A patient with diabetes, for example, can upload their blood glucose reading automatically from their monitoring device to their phone and share it with their physician, using apps which help with disease management and diet. Patients can connect with fellow patients via digital tools and monitor early warning signs of complications such as diabetic foot-ulcers via home-based diagnostic systems.

Digital allows the collection and real-time analysis of vast volumes of data about the performance and potential side-effects of specific drugs, which could not only help fulfil regulatory requirements in areas like pharmacovigilance, but enable pharmaceutical companies to prove the real value of the products they sell, and thereby support more evidence-based pricing models.

FUTURE DEVELOPMENTS

Talking to doctors via video chat is the future. A new partnership in the US between an insurance provider and three leading telemedicine companies will make virtual doctors’ visits a reality for many Americans.

Video ‘visits’ will make quality healthcare more accessible to people in rural areas, says the partnership – or, simply, they will become more convenient for everyone.

In readiness, doctors are being encouraged to create a suitable backdrop for video appointments, perhaps by hanging diplomas on the wall within the frame. They are also being offered training on appropriate ‘webside manners’ involving eye contact and attentive listening.

Other suppliers are advocating that patients engage via text message through a website and app. Doctors, they say, can resolve 70% of patient queries through text and picture messages. With a typical text ‘appointment’, patients could pay for 15 minutes of a doctor’s valuable (and expensive) time. Patients could get answers to all of their questions in one text exchange.

Importantly, such developments enable the doctor to check in on a patient after a few hours, and again the next day, and again the day after that, if needed.

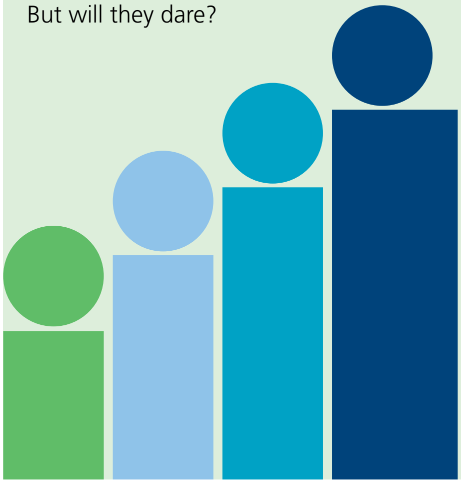
> “A patient with diabetes can upload their blood glucose reading automatically from their monitoring device to their phone and share it with their physician, using apps which help with disease management and diet.”

Realistically, say healthcare commentators, the future will probably involve a mix of face-to-face appointments and video/text 'visits'.

Innovative start-ups, previously outside the healthcare sector, have been exploiting the potential by finding ways to monetise data and sell it to the pharmaceuticals industry. Some new competitors are not start-ups but big established tech players, such as Google, Apple and Samsung, who have the skills and trusted brands to develop and scale digital health apps quickly.

To take full advantage of the opportunities digital technology offers, pharmaceutical companies are taking a hard look at the industry's value chain and identifying where to play and, critically, who to collaborate with. They are looking to establish operating models and strategies to maximise the value of the data they collect. Further ahead, pharmaceutical companies could move into another digital wave, making the shift from selling products to selling outcomes – a new and potentially more profitable business model which takes on more of the risk of healthcare provision.

Tools exist already enabling the pharmaceuticals industry to become not just a pill provider but a health and disease manager, and take ownership of the whole patient journey, from beginning to end. But will they dare?



SERVICES TO THE LIFE SCIENCES INDUSTRY

UHY Deutschland AG, Germany, provides extensive services to the life sciences industry such as to Scienion AG, with headquarters in Berlin and operations in Germany and the US, which provides products for ultra-low volume liquid handling systems and devices that detect biological material. "We appreciate the timely, competent and personal attention we receive from this flexible consultancy," says Horst Müller, the company's CFO. He adds:

"UHY member firms give us a global presence but at the same time a non-bureaucratic approach tailored to our needs at a very good price-performance ratio."

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TRUSTED ADVISORS IN RESEARCH & DEVELOPMENT

DR Healthcare, a client of UHY's Spanish member firm, UHY Fay & Co, researches, develops and licences bio functional products with a focus on chronic pathologies such as migraine, chronic fatigue and irritable bowel syndrome. DR Healthcare has two operating centres in Spain and France. CEO Juanjo Duelo says:

"UHY Fay & Co's most important role has been helping the company develop its strategy, generating a flow of new ideas, delivering exceptional value with integrity, sharing knowledge and bringing fresh insights. They are our trusted advisors – a team that is positive and transmits its positive energy to us."

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SUPPORT SERVICES FOR INNOVATIVE TECHNOLOGY

UHY Dawgen, Jamaica, is engaged by the IHS Group, which provides specialised healthcare in the Caribbean and Africa, leveraging technology advances to pioneer innovative solutions. IHS created the first use of telemedicine and remote image management in the Caribbean, enabling patients to access specialists from other countries remotely. The company has also established cardiac centres in Nigeria – one of them in the south/southeast serving 50 million people. IHS chairman Ernest Madu says:

"We were impressed with the ability [of UHY Dawgen] to understand our needs and their willingness with our company to ensure proper corporate structuring, financial and asset management. We appreciate that UHY Dawgen took time to understand our business model and craft an approach that was specifically designed for us."

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EUROPE ON THE ROAD TO RECOVERY

Some economic pundits have been questioning whether it's for real. After all, they've witnessed European Union (EU) stagnation, become tired of the EU showdown with Greece, and noted how governments, trying to heal their sovereign debt crises, put on an ambitiously brave face as they seek re-election.

So, when policymakers at the International Monetary Fund (IMF) and the EU herald economic revival and upgrade their forecasts for EU growth into 2016, commentators cast doubt.

But, the truth is, the EU is *recovering* – thanks to a large slice of good luck: a sharp drop in oil prices and a weakening Euro have combined to boost Eurozone growth and stave off entrenched stagnation.

In fact, one or two largely unsung EU economies are doing rather well, and are well placed to help stimulate the whole of the EU back into prosperity.

Take Poland (pictured above), for example. Over the past 25 years, the Polish economy, in real GDP terms, has doubled in size. On GDP per capita, Poland has moved from 32% to 60% of the Western European average. Poland was the only EU country to avoid recession during the global financial crisis and is today the eighth-largest EU economy. Its impressive history of growth for more than two decades has left the country, long a marginal European economy, poised to become a regional growth engine.

EU COUNTRIES – WHERE THEY STAND

The IMF forecasts that the 19 European countries using the Euro currency will collectively expand by 1.5% in 2015 and 1.6% in 2016, up from a January 2015 forecast of 1.2% growth this year and 1.4% next. Last year the Eurozone grew by just 0.9%.

> Europe's economic outlook is a little brighter today than when we presented our last forecast. But there is still much hard work ahead to deliver the jobs that remain elusive for millions of Europeans.

The European Commission has also upgraded its growth forecasts. The commission predicts the Eurozone economy will grow by 1.3% in 2015 and 1.9% in 2016.

Anticipating bailout agreement and conformity, the European Commission has even only marginally downgraded its projections for Greece. It predicts Greece will grow by 2.5% in 2015 and return to 3.6% growth in 2016.

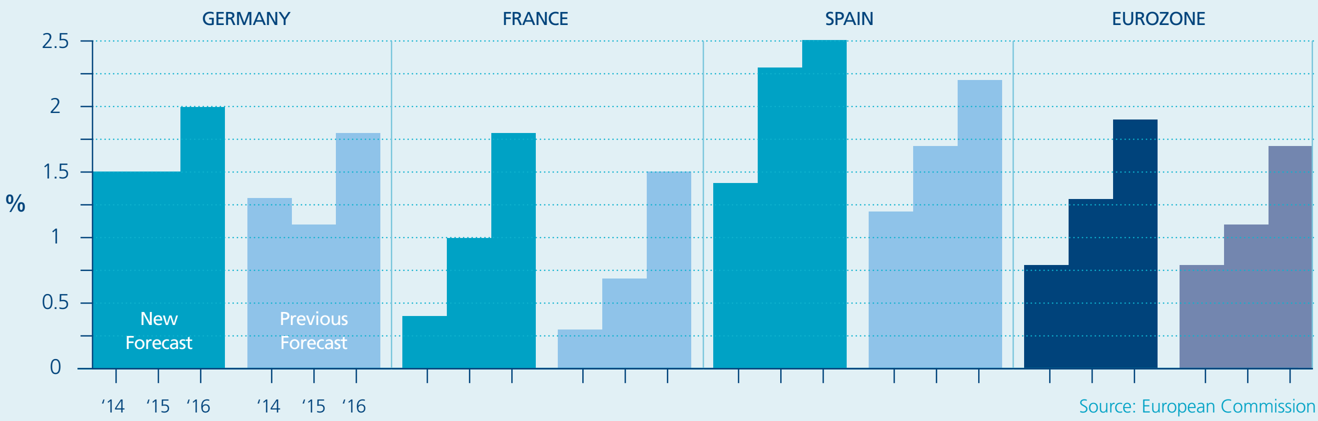
European Commission officials acknowledge that the EU economy remains troubled, pointing to weak investment and stubbornly high unemployment across Europe. But they highlight that unemployment is projected to drop to 11.2% in the Eurozone this year (albeit barely lower than during its peak of the global financial crisis when it hit 12%).

Pierre Moscovici, the EU's economic chief, says the sharp fall in oil prices and a weaker Euro are providing a welcomed benefit. He adds: "Europe's economic outlook is a little brighter today than when we presented our last forecast. But there is still much hard work ahead to deliver the jobs that remain elusive for millions of Europeans."

The European Commission's growth forecasts (see chart below) for the end of 2015 (compared with its previous forecast for late 2014) highlight Germany's sustained growth; France (the Eurozone's second largest economy after Germany) recovering; Spain recovering strongly; Italy remaining stagnant; the Eurozone overall resisting decline – and the EU bolstered by the UK, a non-Euro country, driving comparatively strong growth.

Growth Jolt

A sharp drop in oil prices and a weaker Euro led EU economists to raise their estimates for GDP growth this year and next



Source: European Commission

Poland – birth of a growth engine

Twenty-five years ago, events in Poland started changes that swept through Central and Eastern Europe, sparking massive economic and political transformations.

As the Polish economy emerged from decades of state control, industries were privatised and market-based competition was introduced, followed by painful reforms.

Within a few years, Polish GDP and living standards began to rise significantly, as the country started on a growth path that continues today.

Accession to the EU in 2004 confirmed the success of Poland's effort and indicated a development path that was leading toward positioning Poland among Europe's most advanced economies.

Over the past 25 years, the Polish economy has doubled in terms of real GDP, and enhanced GDP per capita by upward of 30% compared with the Western European average. Having avoided recession and pegged its place as the eighth-largest EU economy, Poland is poised to become a regional growth engine.

The McKinsey Institute forecasts that Poland can accelerate development to become the fastest-growing EU economy for the next decade. Under its growth model, Polish GDP would top 4% annually over the next decade and per capita GDP achieve 85% of the projected EU-15 average by 2025.

Such development would leave the country on a par not only with Cyprus and Portugal, but also similar to Spain and even Italy (the Eurozone's third biggest economy). Poland would become a globally competitive advanced economy and a significant exporter of goods and services.

"While this more ambitious scenario does not require Poland to abandon its existing growth model…, it does require a powerful collective effort by both the private and public sectors," says McKinsey.

"Since the country is already a developed economy, this accelerated growth will only be achieved through a major multi-sector transformation programme in conjunction with further improvements to infrastructure, simplification of regulations, and investment in education and innovation.

"We believe the country has the means and resources to begin this new economic phase, transforming by 2025 from a regionally focused middle-income economy to an advanced European economy competing successfully on the global market."

UHY has member firms throughout Europe. In Poland the network is represented by Biuro Audytorskie Sadren Sp. z o.o. and by ECA Group.

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