Facing up to corporate corruption and crime

BY CHUA SUE-ANN

Broad discussions of corruption in Malaysia often miss one key actor — the corporate sector. A newly-launched report, PwC's Global Economic Crime Survey 2016, has refocused attention on bribery and corruption in the corporate sector.

The Malaysian part of the survey shows that the prevalence of age-old crimes like asset misappropriation, procurement and accounting fraud decreased slightly in 2016 compared with 2014's findings. But bribery and corruption remains on the rise, jumping substantially from 19% to 30% in 2016.

The global survey polled 6,337 respondents from 115 countries. However, it did not specify how many of these were from Malaysia, only that the respondents represented 17 industries. One in three respondents were at listed companies and 18% were with government organisations.

At a briefing last week, Alex Tan, senior executive director and forensics lead at PwC Consulting Associates (M) Sdn Bhd, said that in discussing the issue of bribery and corruption, one must be aware that it is not just a government issue and that the private sector has a large part to play as well.

"You have corruption and bribery where the people in the private sector pay people in the government sector. And you have it where the private sector are bribing each other in terms of contracts. What is the common denominator in all of this? The private sector," says Tan.

Malaysian companies appear to be more pessimistic about the prevailing levels of bribery and corruption. Thirty per cent of Malaysian respondents reporting experiences with bribery and corruption is much higher than the global average of 24%.

Evidently, there is a disconnect between the tone at the top and the reality on the ground in companies.

The survey found that 98%, or almost all Malaysian respondents, say they make it clear to staff that bribery and corruption are unacceptable business practices. Yet, 29% of respondents believe their companies will experience it in the next two years.

"Is the tone from the top getting translated to action on the ground?" Tan asks.

A slightly more heartening finding in Malaysia is the apparent drop in requests for bribes and lost opportunities. In the latest survey, more Malaysian respondents say they were not asked to pay a bribe (64% in 2016 versus 52% in 2014) and fewer respondents say they were asked for a bribe (6% in 2016 versus 16% in 2014).

Meanwhile, more Malaysian respondents believe that they did not lose an opportunity to a competitor who they believe paid a bribe (48% in 2016 versus 35% in 2014), while fewer said they did lose opportunities for not paying a bribe (9% in 2016 versus 23% in 2014).

But another startling finding by PwC is Malaysia's reported levels of bribery and corruption relative to its top trading partners.

In the 2016 survey, Malaysia takes the second highest spot for bribery reported at 30% after China (46%), followed by Japan (24%) and Singapore (17%).

This is significant because in 2014, Malaysia reported the lowest level of corruption — at 19% — relative to its three trading partners.

"With the significant rise this year, our trading partners may see us as a more risky place to do business. This could have implications for our investment growth. Malaysian companies, in turn, need to be aware of the corruption risks that exist when doing business with our trading partners," PwC notes in its Malaysia report.

Tan cautions that this means that Malaysian organisations need to strengthen their internal processes and take steps to ensure that staff are not paying bribes when doing business locally or overseas.

"I do not know of any country where paying a bribe is allowable by law. When you do business in another country and say 'Oh that is just the way business is done here', what you are doing is that you are eroding your own company's ethics and you are leaving yourself exposed. If you get caught you will go to jail," he says.

PATRICK GOH/THE EDGE

"I do not know of any country where paying a bribe is allowable by law. When you do business in another country and say 'Oh that is just the way business is done here', what you are doing is that you are eroding your own company's ethics and you are leaving yourself exposed. If you get caught you will go to jail," — Tan

CHART 1

Top 5 economic crimes experienced in Malaysia
Malaysian respondents

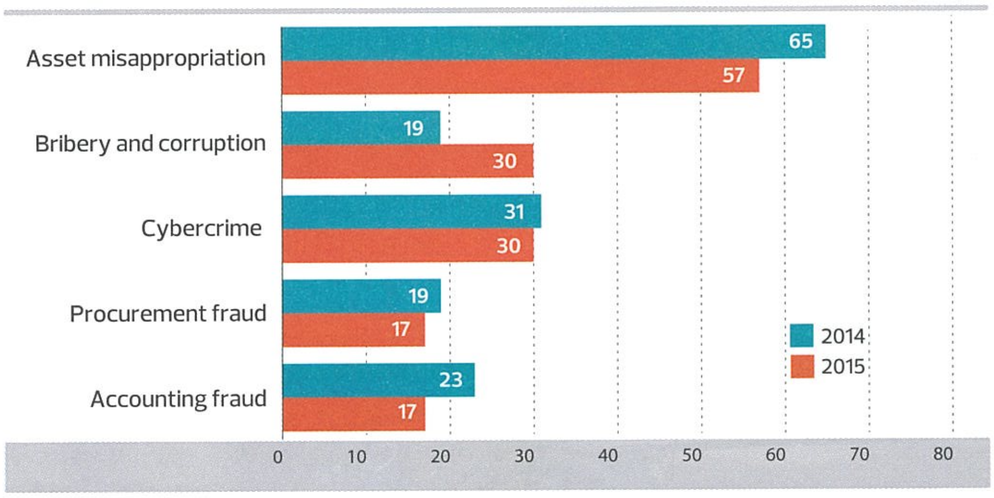
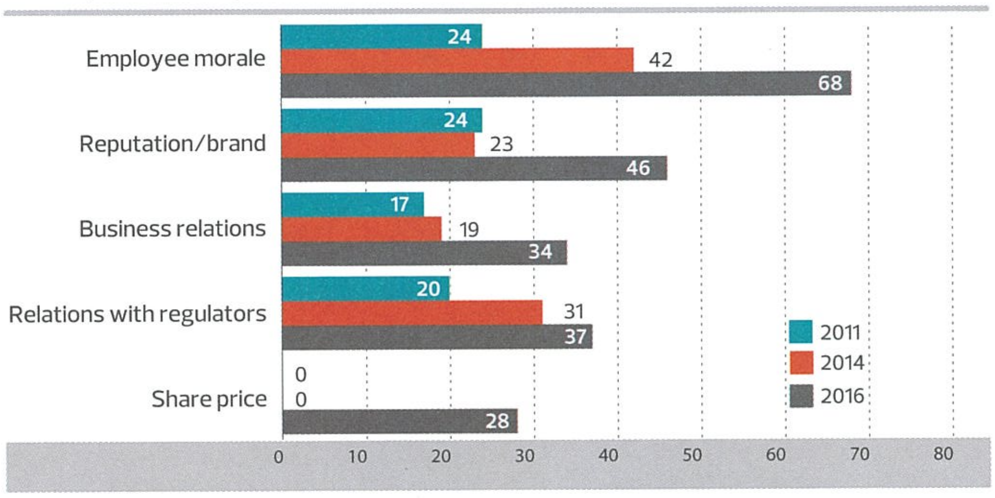


CHART 2

Non-financial impact of economic crime
Malaysian respondents



A look at other economic crimes

PwC's survey found that Malaysian companies reported slightly fewer incidents of the other more "traditional" forms of economic crime. (See chart 1)

For example, asset misappropriation, the top type of economic crime experienced, fell slightly to 57% in 2016 from 65% in 2014. This is in line with global trends.

Globally, more than a third of organisations have experienced economic crime in the past 24 months.

Top 5 industries most at risk of economic crime globally
Global respondents

Financial services	48%
Government/state-owned	44%
Retail and consumer	43%
Transportation and logistics	42%
Communications	38%

The 2016 survey does show that the worldwide incidence of economic crime has come down marginally by 1% to 36%, for the first time since the global financial crisis of 2008/09.

As a region, Asia-Pacific has seen a 2% decrease in reported economic crime to 30% in 2016 from 32% in 2014.

Yet, PwC asks: "Are these crimes becoming harder to detect or are we simply becoming less aware of the changing threats that businesses face? More importantly, what should we do about it?"

PwC's survey also found that 9 out of 10 Malaysian respondents believe that opportunity continues to be the driver of economic crime in their organisation. But one in three companies have not carried out a fraud risk assessment in the past 24 months.

This is also seen in the area of cybercrime. Almost half of Malaysian respondents, or 42%, see an increased risk of cyberthreats but the awareness of internal preparedness is still low.

Only 35% of Malaysian respondents say they have a fully operational cyber incident response plan and 54% are not sure whether their organisation is at risk.

Tan points out that while the tone from the top on economic crime seems to strike the right chord, many companies do not conduct enough internal risk assessments for fraud and other types of economic crime.

One way, Tan suggests, is to identify the gaps in internal processes that create opportunities for economic crime to happen.

Companies can also employ more technology, like big data or predictive analytics, as a form of prevention.

"If the staff know there is a regular risk assessment or a big data exercise, what it ingrains is the culture of 'I had better not steal'," Tan says.

The losses and fallout from economic crimes are not insignificant. Globally, nearly a quarter (22%) of respondents experienced losses of between US$100,000 and US$1 million, 14% of respondents suffered losses of more than US$1 million and 1% of respondents (primarily from North America and Asia-Pacific) reported losses in excess of US$100 million.

The case for early detection is clear. When economic crime occurs, there is a financial cost and there are non-financial costs that are often difficult to quantify.

From a financial perspective, 30% of Malaysian organisations that were victims of fraud lost over US$100,000 while 13% loss in excess of US$1 million.

Then, there are the non-financial costs that are difficult to estimate and can often have a long-term impact on a business. These include the impact on staff morale, the brand or reputation, business relations, relations with the regulator and share price. (See chart 2)

Tan also points out that fraud takes up a substantial amount of management and board time. "If you detect fraud early, you can cut the losses. What is more, if it becomes known within the company that you have detected something and have taken strong action against the culprit, that sends a really strong message." E