



Our Perspective

Reputational damage: the real cost of playing dirty

You would be forgiven for thinking that a colossal multinational car manufacturer like *Volkswagen*, with what was an enviable reputation for German precision engineering, would surely be a trailblazer in transparent processes and production. Or then again, maybe not.

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So what does the *VW* scandal tell us about life in the new and collaborative world of Compliance 2.0, considered to be a core business competency for testing internal controls?

The *VW* scandal has affected almost 1.2 million vehicles in the UK alone, with some 80,000 of those being commercial vehicles. The company confirms that new vehicles and those with petrol engines are not affected. However, given that three of their models are in the UK year-to-date top ten best sellers list, in a currently growing market, that's an awful lot of good will that may have soured.

It's not just the worldwide consumer that *VW* has potentially alienated. The German group employs hundreds of thousands of people in its production plants around the world, and supplies cars to retailers who rely on their reputation to market the products. Politicians rely on them for taxation income and employment opportunities, and stakeholders who have invested in them have seen their share value drop dramatically. Add to this the potential damage to the industry as a whole as doubts are cast about the integrity of the emissions tests across the board. Then you have the not insignificant matter of drawing the attention of the regulatory authorities towards the business.

Trust and respect are things you have to earn on any scale, but a breach of either on a global level is a very public fall from grace. It begs the question as to what could *VW* have done to prevent the problem from occurring in the first place?

The principles of Compliance 2.0

A good compliance programme should have the intention "*to find, fix and prevent misconduct*".¹ In order for this to happen, compliance has moved on from 1.0 - where compliance was a box-ticking function of the legal department - to embrace an

independent, empowered compliance officer adding real value to business decisions. Board members are required to "*keep themselves up to date on ethics and compliance developments*"² through the information this impartial compliance officer supplies.

Spreading the word

Assuming that the board of a company has taken this 2.0 approach, how then should that be cascaded throughout the business to prevent dishonest or fraudulent activity occurring, and to encourage senior staff and board members to rapidly uncover and rectify any that does? At the very least as a company you should:

- Set up a code of conduct for staff, publish it, make it accessible and include details of any legislation applicable to your business
- Agree internal processes and policies for compliance, enhanced due diligence screening and anti-corruption, and how you keep records of the same
- Train your staff and lead by example
- Agree internal reporting processes, and how you will deal with and rectify infringements

Conclusion

The *VW* board of directors "*insisted when Martin Winterkorn resigned as chief executive on September 23 that he had not known about it* [the emissions

¹ <http://www.corpcounsel.com/id=1202727418551/4-Steps-Boards-Should-Take-Toward-Compliance-20> Donna Boehme, Michael Volkov, *Corporate Counsel*, May 26 2015

² *ibid*

deception]”.³ If Compliance 2.0 had been in practice, would this have been possible?

An enabling compliance culture might well have helped VW break down its silo-based structure that many believe was behind the company’s inability to recognise and get to grips with its emissions deception.

We believe reputational damage from playing dirty can be minimised through the use of a Compliance 2.0 Chief Compliance Officer (CCO) and a strong compliance programme, and contrary to old ways of thinking *“companies that attend to ethics and compliance are more profitable. The logic behind this basic idea is straightforward: an ethical culture translates into lower misconduct rates, improved employee morale and greater sustainability”*.⁴

Why we do what we do

At Kasalana we have a client-centric approach to intelligence and believe in giving our clients what they need. The information we supply is openly asked for and freely given, and all our work is overseen by senior consultants with many years’ experience in their field. With an ethical approach to investigation, we support improvements in global business practices and security.

All our intelligence is individually sourced and produced at the time of commissioning to answer the specific needs of our clients. We work honestly and transparently using a global network of resources to provide timely and accurate information to international clients. To read case studies, please go to www.kasalana.com.

Consultation meetings

If you would like a free consultation with Kasalana, please email info@kasalana.com quoting reference OP9C.

Who we are

Formed in 2005, Kasalana is a specialist corporate intelligence company that conducts investigations globally on behalf of clients from industries including automotive, aviation, construction, consumer products, defence, energy, engineering, financial services, insurance, legal, manufacturing, media, medical, mining, retail, services, technology and telecommunications. We are experts in enhanced due diligence, background checks and legal support services including asset tracing & litigation support, corporate fraud investigations, merger & acquisition support and strategic & market intelligence. Our clients include FTSE-100, FTSE-250 and Fortune 500 corporations, global financial institutions, major law firms and leading private equity houses.

Prior to forming Kasalana Sam Pope was Head of Business Intelligence, Deputy Director of Corporate Investigations and EMEA Director of Fraud & Forensic Services for a leading global security risk management company, where he led a team of 40+ investigators. A former defence journalist, Sam has extensive experience of investigating fraudulent activity including asset misappropriation, bribery and corruption, intellectual property fraud, false accounting, securities and investment fraud, regulatory and anti-trust violations. He frequently works in close collaboration with clients’ other professional advisers. He is a member of the *American Society for Industrial Security* and the *Association of Certified Fraud Examiners*.

Gareth Crooker joined Kasalana in 2010 after working as Director of Corporate Investigations, South-East Asia, for a leading global security risk management company. He has been a business risk consultant for more than 20 years and specialises in pre-investment and compliance-driven due diligence and business intelligence. Gareth has also conducted bespoke research and analysis into the political, commercial and security risk environment in Europe and the Former Soviet Union. As well as his native English, Gareth has near-fluent French and Spanish, together with basic Italian and Dutch.

³ <http://www.ft.com/cms/s/0/bdd692a8-6d22-11e5-aca9-d87542bf8673.html#axzz3nxvla9Xx>

⁴ <http://www.corpcounsel.com/id=1202727418551/4-Steps-Boards-Should-Take-Toward-Compliance-20> Donna Boehme, Michael Volkov, *Corporate Counsel*, May 26 2015