

PROTECTION PHILOSOPHY – Modern Tendencies in Ensuring Business Safety

Business safety is a sphere of activity relatively new for Russia. Nevertheless, the environment and conditions forming this sphere have undergone huge changes from the moment of their first appearance.

These changes have been especially noticeable the last five years. Now these changes are quite evident very strongly affecting the requirements to the companies and their experts concerning the structures of business units of the companies, safety methods and means. What are these changes? And what is to be expected in this area further?

The most significant change, in my opinion, is the awareness that investigation of theft is an area inseparably linked with all the other areas of internal control in any commercial organization. Theft results from slackened control environment in the company that is decrease in the desire of the employees to follow control requirements. Here many factors from the field of activity of various subdivisions are involved. Most experts in this area today are unanimous in their opinion that it is necessary to devote more attention to prevention, and not just to the detection and disclosure of the thefts and other offences already committed.

I use the term *theft* and not *fraud*, as the latter is usually associated in the Russian law with the Article 159 of the Criminal Code of the Russian Federation meaning only the crime based on breach of trust. In practice we certainly have a wider range of crimes which deprive the business owner of his assets, though the criminal code articles can be most different.

Another term is *losses*, but it also covers the areas not connected with safety, such as losses from the inefficient marketing policy, for example. Therefore the term *theft* in the given context is most pertinent.

Complex Approach to the Creation of a System of Business Safety

Three Stages of Development of Business Safety Systems

From the point of view of safety the whole 20-year-old history of business in Russia can be broken down into three stages.

The first stage was frankly gangland relations in 1990ies when half, if not more of the corporate security service personnel were blatant criminals and all problems were resolved by criminal methods. We need not discuss it in detail.

The next stage, conditionally named *phone justice* one, appeared approximately in 2000. The main idea of the stage was “let's employ a general, he will solve all our problems”. The experience and contacts of this key person play the main role. All and any problems that may arise will be resolved by a phone call to the necessary person, hence the name. In fact, this is corruption at its finest. Cases and boxes with money were moved from one office to another, their occupants being officials of various ranks. The wives of the officials worked for large corporations, which allowed to form corruption chains for the solution of problems. This situation is to a considerable extent preserved today; however, some tendencies have been outlined to show we have approached some other stage in the development of business safety systems. Many companies face it directly and ask the question “What shall we do further?”.

It is possible to call this stage an *Intelligence* one. This term means the ability of abstract thinking, understanding, communications, beliefs, training, planning and application of intellect in the solution of problems.

The problem is that this approach is expensive enough. We have got used to consider a security man as a retired militia man, with not much brain under his service cap, whom we do not have to pay much. He will be happy with the very fact that he is employed and will do his utmost to solve the problems. It is quite expensive to employ people who solve problems by intellectual methods. Nevertheless, the world dictates its rules and laws. Formerly it was necessary to solve the problem by any means. At the following stage the legality of the methods became the key factor of solving problems. Now there comes a stage at which it is necessary to prevent the occurrence of problems. And this requires an absolutely different personnel structure of the control divisions and an absolutely different approach to work. Therefore the expenses will be absolutely different.

Current Business Problems

What are the main business needs today? What prevents normal work? At a conference where I was present recently, the participants - businessmen literally shouted from the stand that the bribes in the country had grown to a level making it almost impossible to work. Probably the reader also sees this tendency. If earlier a road traffic policeman took three hundred rubles to “solve the problem here and now”, today he would not agree to less than five thousands. Is it good or bad? In my opinion, it is good. Because if this process continues and the size of the bribe reaches, say, thirty thousand rubles, it will be easier not to breach the rules than to pay such bribes. Therefore, in my opinion, it is a positive tendency. It testifies to the growth of rule of law and civility in our society.

One more trouble for the business is increase of control in the field of state orders. For example, system integrators are often enough used as *laundries* for the money allocated from the state budget. That is, a considerable amount of the state order is used as kick-back for state officials. However, today such things are beginning to be rigidly enough supervised by state bodies and it becomes simply dangerous to give bribes. This is, undoubtedly, another positive tendency for the business and the society as a whole.

And still the situation in the Russian business changes too slowly. What is the reason for that?

Let's look at the economy. On the one hand, we sell our products in the world market at world prices. We cannot set the prices for the products as high as we would like.

SERGEY MARTYNOV, president of the ACFE Russian branch

The Association of Certified Fraud Examiners (ACFE) is a professional international organization uniting experts in the field of prevention, detection and investigation of instances of theft, fraud and abuse of office. There are more than 114 representative offices of ACFE operating in more than 40 countries. The association unites more than 42 thousand members - experts of antifraud departments, internal and external auditors, examiners, security service members, employees of state organizations, experts in internal control, risk management and corporate managements, etc.

The Russian branch of ACFE began its work in November, 2007. Now Russia has about 80 ACFE members, 25 of them with professional qualification of Certified Fraud Examiners (CFE).

On the other hand, we have unreasonably inflated production expenses – an enormous volume of thefts (everyone steals everything he can lay his hands on), we have enormous corruption (we have to pay officials for licenses, for their not stopping our production process, etc.), we have low labor productivity, low culture of management, we have high social expectations and often a leading-strings mentality of the personnel, etc. Theft losses on the average make about 31 % of total production expenses (Source: ACFE Russia, 2011).

On the one hand, we have the prices for products limited by the market – on the other hand, there are unreasonably high production expenses. Where then will business get profit? What sources will cover its losses?

Historically at first these were taxes. It was easier not to pay taxes - and enterprises did not pay them, inventing various schemes of “optimization.” All these schemes had a sad end for some of them, while the others learnt the lesson that taxes must be paid. Now this way to compensate the losses from theft is no longer popular in big business.

What remains? Today there are still some sources to cover the losses caused by theft. These are ecology, nature protection measures, industrial safety, abuse of monopoly - everything in the spheres poorly controlled by the state. All these listed sources can be summed up by one broad concept of *business ethics*. It is unethical to pollute the environment, for example. But if it is not punishable then... The only question is whether nature protection could be the next major risk for the business in the nearest years and an occasion for nationalization?

There are also other sources, which deserve a separate article to discuss them. But it is important that if the state gradually tightens control in the field of the “compensatory” mechanisms described above, the sources of covering expenses on theft and corruption will start to disappear. Where then the Russian business will get profit?

Here we observe a very interesting tendency - the more the state tightens control, the more is the motivation of the business to fight against theft. In my opinion, business owners start to understand that non-observance of regulatory rules in the field of ecology, industrial safety etc. can become in the near future one of the basic levers of redistribution of property and lead to their loss of business. And they face the choice - to risk the loss of business or to start building a complex system of business safety.

It is very important to understand that the system of business safety should cover all fields of activity of the company.

Most experts in this area today are unanimous in their opinion that it is necessary to devote more attention to prevention, and not just to the detection and disclosure of the offences already committed.

So, what is the business safety system of a large company today? Let's look at this system in a simplified form. The company, as a rule, has a lot of controlling divisions: Security Service, Internal Audit, Control and Audit Department, Risk Management, Compliance, IT Security etc. The names can be different, functionally they do different things, but each of them is responsible for a certain direction of business safety. The problem is that all these business units speak different languages and poorly co-operate. Some of them speak about drawbacks of the system of internal control, others about the risks, still others - about vulnerabilities or threats. Some of them are engaged in checking, others in investigations, still others conduct audits.

The result is a motley confusion of different units and their functions and absence of communications between them.

My favorite test question at meeting with the management of the companies on the topic of a complex system of business safety is: “When did your Security Service Head last met with the Risk Manager?” Often the Security Service head even cannot recollect the name of the Risk Manager. And after all both of them are responsible for the safety system. They should co-operate, co-ordinate their work daily. And more often than not this is not so. Therefore the system of business safety in practice turns into something similar to a scrappy blanket – it covers something, there are some gaps, and the most important thing is that all this reminds you of a fairy tale about seven wise men and an elephant when each of them sees the problem and describes it in his own way, but as a whole the problem of business safety, coordination between different business units is seen by no one.

One of the main principles of control is independence of the controller - independence from other divisions, independence from the top management, direct subordination to the owner or the Director General. And all our control divisions declare independence, referring to the

corresponding standards of professional work. In practice it often means only that nobody and nothing depend on them.

How should we create a system of complex safety of business? It is impossible to describe it in detail in just one magazine article. First of all, it is necessary to define the functions of the system - what fields of the company activity it should cover. In the most general terms, it is a system providing:

- Protection from intentional actions of any third parties and the personnel against the interests of the Company.
- Protection against potential defects and drawbacks in the system of internal control.
- Protection of business against negative influence of the environment (market, competition, prices, quality, new products, society).

Once the most general and most topical sources of threats are identified, it is possible to distribute them by the spheres of the competence and responsibility of various supervising divisions. For example, the threats proceeding from some particular persons and groups are mostly dealt with by the Security Service, while the threats which do not have an identifiable source are within the competence of the Risk Manager. The Security Service speaks about the facts, Risk Management - about estimations. Internal audit both uses actual proof, and gives estimates of the risks on the basis of judgments.

On the basis of introduction of measures for organizational, communication and methodical regulation of work of control divisions a large company can not only improve the quality of the business safety system, but also materially cut down the costs of its maintenance.

Role of Intangible Assets

Another tendency in the development of business safety systems is the shift of principal attention from tangible to intangible assets. If we compare the corporate assets structure some dozen years ago and now (fig. 1), it becomes obvious that the basic cost of assets has moved to the "intangible" sphere.

At the first stage, with informatization development, an ever-growing amount of information is placed in information systems, beginning with data-processing centers and ending with personal smart phones. Information security becomes not only a problem of separate companies, but also a problem of the society as a whole. Comprehensive information on you, the reader, is today stored in various computers, databases, clouds, social networks etc. and can be extracted by criminals with little effort and expenses. The number of crimes based on theft (unauthorized use) of personal data increases by dozen percent points every year, and in Russia their growth is limited only by the relatively weak informatization of the society.

Additional risks in Russia are created by the weakness of legislative regulation of relations in the information sphere, which multiplies the risks of the companies. Not only unauthorized access to information, but also its distortion, destruction, temporary blocking of access are actually not punished in any way.

The systems of business safety of the companies should be ready to allot many more resources to information security problems. Unfortunately, today in the majority of the companies these are just words, not any actual deeds. When the company orders penetration tests, their results show a catastrophic condition of information security.

Personnel

It is obvious for the experts in business safety that today the personnel are both the main asset, and the main source of threat for modern business. No technical devices will protect the company from negligence, sabotage, theft of the personnel. The personnel are a specific asset not reflected in modern financial accounting. It is not the property of the organization and has a freedom of moving

from one organization to another without the consent of the owner. Sometimes it passes to competitors, sometimes operates under the influence of own beliefs or grievances. In the total scope of damage suffered by the company, the damage as a result of actions of its own personnel by far exceeds the damage from all other factors taken together.

EVOLUTION OF THE STRUCTURE OF ASSETS OF THE ORGANIZATION			
BEFORE			TODAY
PERSONNEL	CORPORATE CULTURE	INTANGIBILITY	PERSONNEL
INTANGIBLE ASSETS	TECHNOLOGIES		EM (ELECTRO-MAGNETIC) INTANGIBLE ASSETS
	GOODWILL		
TANGIBLE ASSETS	LICENSES		TANGIBLE ASSETS
	INFORMATION SYSTEMS		
	PROTECTION OBJECTS		

Why then does the internal audit in a modern company practically never work with the personnel as with an asset the state of which needs to be estimated first of all? Probably, this is the reason of the crisis in the trade of the internal auditor which we will talk about a bit later.

Corporate Culture

It is necessary to pay attention to such an asset of the company, as corporate culture. Over recent years it has been understood that the company can have excellent assets, the best employees and still fail even under the best and most favorable business conditions. What is the reason for that?

Studies show that there is still a certain intangible asset which has a defining impact. It is corporate culture. There are many definitions of corporate culture, we will give just one, most precisely reflecting its essence:

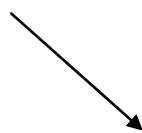
Corporate culture is formed by the values and beliefs shared by the majority of employees of the Company defining their behavior in the labor collective, attitude to their work, management and the Company.

One of the modern lines in business safety is maintenance of loyalty of the personnel through the development of corporate culture. For that it is possible to apply the concept developed by ACFE Russia which states that the formation of corporate culture (attitude of the personnel to the company values) occurs through satisfaction of two basic social needs of man - social protection and social recognition).

The concept of corporate culture states that the Company translates its values to the employees through satisfaction of their basic social needs in exchange for their recognition of the Company values and aims (fig. 2).

Therefore from the point of view of business safety such procedures as estimation of loyalty of the personnel, audit of corporate culture and others aimed at controlling the state of the most valuable assets of the company become more and more important.

COMPANY		EMPLOYEES
CORPORATE VALUES	DEVELOPMENT	•ACTIONS



	<ul style="list-style-type: none"> • NEED IN SOCIAL RECOGNITION • NEED IN BELONGING TO A STRONG GROUP 	<ul style="list-style-type: none"> • AIMS • CONVICTIONS • PERSONAL VALUES 
	<ul style="list-style-type: none"> • NEED IN SAFETY • PHYSIOLOGICAL NEEDS 	
PYRAMID OF NEEDS, A. MASLOW		

How can a company generate a proper corporate culture, the culture that corresponds to its purposes? Formation of corporate culture can be provided through satisfaction by the Company of the needs of its employees to feel their belonging to a strong social group, social recognition, and respect.

Crisis of the Trade of the Internal Auditor

One may long argue on how the mechanisms of internal audit in a large company should function. I will tell about it in one of the following articles. Today I would only like to note that internal audit as a trade is now in a condition similar to a crisis. The prestige of the trade of the internal auditor is extremely low, and as my colleagues say, there is no such auditor who would not dream to become the head of the procurement department for at least half a year. On the one hand, the level of payment offered in the market to the internal auditor, does not at all correspond to the set of the demands made by the employer. As a result in internal audit there are many “experts” who could not find a place to work in any other trade. It is extremely difficult to expect any results from them. The Soviet principle is realized in practice - *you pretend you pay, we pretend we work.*

Beautiful presentations about the role of internal audit say much about that internal audit should leave the role of a *policeman* and become an *adviser* of the management. Alas, these theoretical constructions have failed to be implemented in practice.

Internal audit does not want to be a *policeman*. To be a *corporate policeman* means to make investigations, to gather proofs, to conduct polls, to prepare documents for bringing the guilty persons to account. This is impossible for the internal auditor, even if owing to that internal auditors do not possess the necessary legal and vocational training, have no experience in carrying out investigations which is built up by years of service in law enforcement bodies.

On the other hand, to become an *adviser* it is necessary to be at least a somewhat better professional, than the managers whom the internal auditor is going to advise. To be a better expert, than the specialist working in this job all his life? In all processes checked by the internal audit? The most he can hear is “step aside, boy, do not interfere with my work.”

As a result internal audit has found an area for itself - testing of control procedures. Especially in the field of financial reporting as the great and mighty SOX (Sarbanes-Oxley act) teaches us. Many internal audit departments spend a large amount of resources for testing control procedures in all processes. Unfortunately, this has little practical value. The presence of duty regulations for the loader of the finished goods shop very poorly affects the level of misappropriation of products from the warehouse. The presence of regulations for tender procedures very poorly affects the results of these procedures if the management wants to bring in its own contractor. By definition, theft/misappropriation is based on deliberate detour of control procedures and is accompanied by concealment of all and any vestiges of the crime.

The presence of ideal controls in any process does not mean:

- That this process generates any added value for the company.

- That the level of thefts in the process will be lower.

The management sees the “benefit” of internal audit exercises and views them as a certain “decorative element” in the corporate governance system. Well, if the investors want it - let them have it. Only so that it will not interfere with business.

Conclusion

We have considered four basic tendencies in the development of modern systems of business safety. Of course, there are many more such tendencies, and it is necessary to speak about them in more details. Moreover, it is necessary to discuss the ways to solve the problems outlined, specifying the methods and projects to do so.

I have intentionally built up this article as a discussion. I hope that it will become the beginning of an exchange of opinions of experts in the field of business safety using this respected publication as the venue therefor.

FRANZ FERENBACH,

Director General & CEO, Robert Bosch: “Corporate culture, and especially a high level of loyalty of the personnel is one of our major assets. Our competitors cannot be compared to us, for it takes dozens of years to create this asset.” *Vedomosti*, Wednesday, March 11, 2009 “It is not a paper clip, it is my money”.

Now comes a stage when it is necessary to prevent the occurrence of problems