MITIGATING FRAUD RISKS IN DIVERSE AND COMPLEX
ASIA-PACIFIC CULTURES

The 2014 ACFE Report to the Nations estimated that the typical organization loses 5 percent of its revenue each year to fraud. If applied to the 2013 estimated gross world product, this translates to a potential projected global fraud loss of nearly $3.7 trillion. Would diverse and complex cultures in the Asia-Pacific region have any impact on the fraud risks identification and anti-fraud controls? This session will explore how learning to navigate the region’s unique cultures in a proactive manner can impact the way fraud happens and how it can be mitigated with appropriate anti-fraud strategies.

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Rachael Mah is the Managing Director and Principal Trainer of the AusAsia Training Institute based in Melbourne, Australia, a boutique training and advisory firm that provides internal auditing, fraud risk management, and cross-cultural communication skills services for medium to large businesses globally. She was an Asia-Pacific regional director, coach, and training specialist with internal audit and risk management experience at multinational firms in Australia, Asia, the United States, and the UK, for more than two decades before establishing her current AusAsia consulting and training institute in Melbourne, training and consulting clients in diverse industries across Australasia, Asia-Pacific, and the Middle East.

Since 2013–14, AusAsia Training Institute has expanded its suite of services, which include consulting and training services that help Western businesses build highly effective engagement with Asian businesses. During her extensive corporate career, Rachael served as the link between Western and Asian businesses, dissolving misunderstandings and bridging differences in cultural and work practices. Her invaluable wealth of knowledge, skills, and experience have become part of her holistic suite of services in helping businesses with governance, risk, compliance, internal audit, and fraud risk mitigation advisory and training services.

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Overview: There Are Five Keys to Mitigate Fraud Risks in Diverse and Complex Asia-Pacific Cultures

- Culture
- Mindset
- Social and business etiquette
- Communication styles (verbal and non-verbal)
- Localise your business (i.e., fraud risk management strategies)

What Is Fraud?

*Fraud* is “a knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment.” Consequently, fraud includes any intentional or deliberate act to deprive another of property or money by deception or other unfair means.

Managing the Risk of Fraud in All Types of Businesses

A sound fraud risk management program would include:

- Roles and responsibilities
- Commitment
- Fraud awareness
- Conflict disclosure
- Fraud risk assessment
- Reporting procedures and whistleblower protection
- Investigation process
- Corrective actions
- Quality assurance
- Continuous monitoring
Occupational Fraud Risks

Occupational fraud risks are a universal concern in all businesses around the world. An average 5 percent of revenue is subject to fraud risks in any organisation:

- Intentional manipulation of financial statements (revenues, expenses, assets)
- Misappropriation of tangible assets (employees, customers, vendors), intangible assets, and proprietary opportunities
- Corruption—bribery and gratuities, kickbacks, and aiding and abetting fraud by other parties (e.g., customers, vendors)


What Is Culture?

- *Culture* includes “everything that people have, think, and do as members of their society”.
- *Culture distance* refers to “the difference in social culture between the home and host countries”.
- The implication of culture distance is that it can make relationship building, negotiation, and entry costs expensive.

Think about culture as the complete way of life of a group of people.
“What really binds human beings together is their culture—the ideas and the standards they have in common.”

—Ruth Benedict, Patterns of Culture

Culture distance is actually “the difference in social culture between the home and host countries”.

Implications of Culture Distance

- Relationship building, negotiation, and entry costs may become expensive.
- Gaps may cause embarrassment, as well as loss of business opportunities and prospects.

Cultural differences are a key reason for business failure in, or with, Asia (e.g., Google, Walmart, Barbie doll).

Key Solutions

- Learn about the culture, relationship building, etiquette, and communication tactics that work in your favour.
- Examine and implement practical and effective AusAsia cultural strategies for more effective fraud risk management outcomes.
### Benefits of Cultural Intelligence (CQ)

1. **Predictable Intercultural Adjustment**
   This will help you adapt your fraud management and professional and personal skills emotionally and psychologically in a new cultural environment (work and social).

2. **Prominent Trust Building**
   Apply appropriate tactics to build trusting intercultural relationships with multicultural teams, clients, vendors, and partners who can help you prevent and detect fraud more effectively.

3. **Professional Judgment and Decision Making**
   Assess the circumstances surrounding culturally diverse and complex situations, and make an effective decision for positive outcomes.

4. **Positive Negotiation Tactics**
   Empower yourself and your teams to apply appropriate communication and negotiation skills when dealing with diverse and complex Asia-Pacific cultures.

5. **Proactive Technical Proficiency**
   Enable yourself to adapt your technical proficiency when working in varied and complex intercultural contexts.
<table>
<thead>
<tr>
<th>Cultural Differences in the Workplace</th>
<th>NOTES</th>
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<tbody>
<tr>
<td><strong>Non-Verbal Behaviour</strong></td>
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<tr>
<td>Eye contact, facial expressions, hand gestures, and how people interpret them vary between cultures.</td>
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<tr>
<td><strong>Social Values</strong></td>
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<tr>
<td>Ideas about appropriate social and work behaviours, work ethics, wealth, and personal growth vary between cultures.</td>
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<tr>
<td><strong>Family Obligations</strong></td>
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<tr>
<td>Some cultures have high family priorities, which may sometimes conflict with work.</td>
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<tr>
<td><strong>Customs</strong></td>
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<tr>
<td>Some cultures can or can't have specific foods and drinks, or may have rules about how food is prepared.</td>
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<td><strong>Dress</strong></td>
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<td>Some cultures have specific clothing, such as headscarves or turbans, that is worn at all times.</td>
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<tr>
<td><strong>Religious Practices</strong></td>
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<tr>
<td>Some religions require time during the workday for prayer, or time off for special religious days.</td>
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**The Differences Between the West and the East**

**The Western Approach**

- Task focused
- Task oriented
- Open to doing business with strangers
- Cold calling; emails are acceptable, as no prior connection may be required
- Working relationships and deals can be done quickly
### The Eastern Approach
- Relationship focused
- People oriented
- Prefer to deal with family, friends, and well-connected people (*guanxi*)
- Uncomfortable doing business with strangers; for example, foreigners
- Relationships take longer to develop

### Mindset and Behavior: A Three-Minute Quiz
In groups of two or three people, make a list of five cultural differences that can make a positive difference in your work, your business, and the markets you want to work with in Asia.

Alternately, what would you list as the top five cultural barriers that could break the team or your organisation’s goals and actions to become highly effective fraud risk management conscious? How can you avoid being the *weakest people’s chain* in reducing fraud risks?

### Negotiation Styles Between the Western and Eastern Cultures

**Western Cultures**
- Final decisions are usually made from the top down, although group consensus is valued.
- Hard-sell tactics are used from time to time.
- For most of the Western organisations, the business deal or contract is more important than the personal relationship.

**Asia-Pacific Cultures**
- Final decisions are usually made from the top down, although group consensus is valued.
- Soft-sell tactics are used from time to time.
• For most of the Asia-Pacific organisations, the personal relationships are more important than the business contracts.

Social Etiquette in Asia-Pacific Markets: For Example, China
Most Chinese speak in an indirect manner. There's usually a deeper meaning of their words, and sometimes what they mean is quite opposite of what they say.

Other markets, such as India, Singapore, Malaysia, Indonesia, and Japan, are similar to the Chinese culture. In contrast, America, Europe, and Australia, are cultures where most communications are usually direct, clear, and precise—yes or no.

Official Languages
Mandarin Chinese, Japanese, Thai, Korean, Indonesian, Indian, Tagalog, etc.

Major Religions
Buddhism, Muslim, Taoism, Hinduism, Catholicism, Christianity, and others

Major Ethnic Groups
Chinese, Malay, Japanese, Thai, Korean, Indonesian, Indian, and many other mixed groups

Asia-Pacific Cultural Practices
☐ It is a common practice among Asia-Pacific cultures to “throw open their doors” to welcome guests into their homes—a practice known as open house.
☐ Asia-Pacific is comprised of diverse ethnic groups, including Chinese, Malay, Indian, Japanese, Korean, Filipino, Indonesian, etc.
Many cultures gather together to eat foods from other cultures and celebrate the many festivals of different religions and beliefs.

Social Etiquette in Asia-Pacific

Eye Contact in Asia
- The level of eye contact varies from one Asian market to another, depending on the cultural background.
- Singaporeans tend to favour direct eye contact over indirect.
- Japanese favour minimum eye contact as a form of respect.
- Females tend to prefer more indirect eye contact when dealing with men.

Views of Time in Asia
- For the most part, Chinese, Singaporeans, Malays, Thais, and Indians view time in a more relaxed sense.
- The Asia-Pacific cultures put more emphasis on people and relationships rather than set schedules and deadlines.
- The Japanese are very punctual.

General Social Etiquette in Asia
- Show respect for the various ethics, races, and religions
- Show respect for the elderly, as well as for senior staff in organisations, such as the chairman and the various C-level executives
- Sutra (Chinese bible), Qurans (Malay bible), Thaipusam (Indians)
Impact on Fraud Risk Management (FRM)?
What would these diverse and complex Asia-Pacific cultural beliefs, customs, and practices have to do with FRM? They make the implementation of FRM and related fraud risk mitigation strategies and communications more complex, tricky, time consuming, and costly to implement and resolve.

Social Engineering and Cybersecurity Risks
“Social engineering is a non-technical method of intrusion hackers use that relies heavily on human interaction and often involves tricking people into breaking normal security procedures. It is one of the greatest threats that organizations today encounter.”

Case studies were conducted in the Asia-Pacific due to its complex and diverse local cultures, beliefs, and customs. Some examples were:
- Japan
- China
- Indonesia
- Malaysia
- Other markets

Business Etiquette
Gift Giving in Asia
- Simple gifts are sometimes exchanged at or after a first meeting to indicate respect and positive rapport building.
- Because business practices and cultural factors have an impact on relationship building that may develop beyond business to a family and friendship basis, this is a tricky area that may or may not inadvertently result in the abuse of trust.
### Western Culture
- Many company policies have a set limit for gift giving in business related activities, say, under $50.
- Avoid giving anything too expensive, as it may be construed as a potential bribe.
- Gifts are usually opened when received.

### Emerging Asia-Pacific Changes
Currently, the emerging markets in Asia-Pacific are moving towards the establishment or strengthening of more global work practices, as well as implementing or enhancing compliances with the relevant regulatory bodies, including China, Malaysia, Indonesia, etc. As a result, we are seeing more stringent compliance policies, including anti-corruption implementation, to minimise the level of acceptance of major gift-giving practices.

As emerging markets become more established and advanced, governance, risk, and compliance frameworks are becoming hot topics in this region. Therefore, there are ample opportunities for various professionals and businesses to add value in terms of education, professional advisory, and coaching and mentoring in both hard and soft skills for Asia-Pacific businesses.

### Communication (Verbal Versus Non-Verbal)
Face-to-face communication includes visual, auditory, and kinesthetic senses. There are three elements in our communication:
- The words we use
- Our tone of voice
- Our body language

What is the percentage (%) of each element?

### Communication Styles in the Asia-Pacific Markets
- Is it customary to shake hands, nod, or bow?
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- What are the types of greetings in the local market?
- As Asians are mostly indirect/high context, practising patience and good listening skills (verbal versus non-verbal) is invaluable for those who currently work with or are intending to expand into Asia.
- Follow the lead of the people you are meeting.
- Acknowledge things in black and white (in writing) versus verbal agreements.
- Prefer to recognise real signatures, a red company seal, or a rubber stamp “chop” to make things official.
- For official communication, letters will suffice.
- The government (high authority power) may monitor email communication, which means one cannot guarantee whether it will reach the other party.

Leadership Styles

**Western Culture:**
- Roundtable
- Open discussion
- Debatable
- Non-differentiation of hierarchy
- Individualistic style

**Most of Asia:**
- Focus on hierarchy and seniority
- Group consensus—goes through several hierarchies and levels of teams
- Takes a longer period for discussions and final decisions
- Significant deference to authority and generally an inhibition to speaking out or taking initiative in case the idea may prove wrong or unacceptable
- Hierarchical culture in which most decisions are made at the top and passed down to the employees to implement
- Patience is an advantageous skill to apply in Asia
## Negotiation Styles
- Bring a sufficiently senior level fraud risk management executive along to be part of the negotiating team.
- The Asians will enter a room based on rank order. You can do the same thing.
- Only the most senior person will speak during the discussions.
- Silence is a tool the Asians use to powerful advantage.

## Reiteration: Implications of Social and Business Etiquette on Fraud Risk Management (FRM)
What would these cultural practices have to do with FRM? They make the implementation of fraud risk mitigation strategies more complex and tricky, as social customs and practices may mean “bending rules and procedures” due to a specific market’s and organisation’s local culture.

### Hint: Forget the Parachute Strategy When Dealing with Asia-Pacific Cultures
- In the West, it would usually involve getting to the point in business negotiations during the first meeting.
- In Asia, they take negotiations step by step, drawing in and referring to each person or department responsible for each aspect of the deal.
- Master some very useful AusAsia cultural business strategies to become trusted fraud examiners, internal auditors, and advisors.

## Implement Integrated Fraud Risk Management Strategies in the Asia-Pacific Region
- Assess your client’s or organisation’s business risk appetite as part of the ongoing corporate risk management framework. Apply the three lines of defence strategy!
| MITIGATING FRAUD RISKS IN DIVERSE AND COMPLEX ASIA-PACIFIC CULTURES |
|---|---|
| - Work collaboratively with internal stakeholders, risk and compliance, operational functions, finance, internal audit, and external stakeholders, including the relevant regulatory bodies. |
| - Keep up-to-date with ACFE, local and international regulations, and all other relevant professional bodies to sharpen your knowledge and skills, and apply practical fraud risk management strategies that work in your clients’ or organisations’ best interests. |

**NOTES**
Case Study #1 – Cultural Misunderstanding

A Story of Culture

- At a group business meeting, my Chinese colleague, Wong, was very quiet throughout three-fourths of our meeting.
- On reflection, it was natural to assume that something about Wong’s personality or my personality or the interaction or coordination between us might have led to the difficult situation. My previous meetings with him convinced me that he was neither inarticulate nor shy.
- As Wong spoke, the cultural underpinnings of our Western-Eastern misunderstanding became vividly clear.
- “Were you expecting me to jump in?” he asked with genuine surprise. “In this room, Elaine is the chairman of the meeting. As she is the senior person in the room, I wait for her to call on me. And while I am waiting, I should show I am a good listener by keeping both my voice and my body quiet. In China, we often feel Westerners speak up so much in meetings that they do this to stand out, or that they are weak listeners. Also, Chinese people leave a few more seconds of silence before jumping in than in the West… I kept waiting for Elaine to be quiet long enough for me to jump in, but my turn never came.”
- Having a deeper awareness of cultural nuances enables us to find easy, yet powerful solutions to such misunderstandings. It is easy to let conventional notions of cultural differences lead us astray, especially those between Americans, British, Australians, and Chinese.
**CQ SOLUTION:**
- Next time you work with a Chinese or other Asian professional business owner in such a scenario, make sure to invite him/her to speak. And if there is no immediate response, allow for a few more seconds of silence before speaking.

**Case Study #2**

**Stockbroking Fraud Case**
- C-level management (marketing and finance directors) were colluding for shares stock manipulation for their own financial benefit
- The local staff were fully compliant with these directors’ daily processing instructions
- Audit and compliance observations raise red flags on the processing of clients’ share stocks
## MITIGATING FRAUD RISKS IN DIVERSE AND COMPLEX ASIA-PACIFIC CULTURES

### Way of Thinking - Mindset

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<tr>
<th>Way of Thinking - Mindset</th>
<th>Asians</th>
<th>Westerners</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Subject</strong></td>
<td>Holistic</td>
<td>Individualistic</td>
</tr>
<tr>
<td><strong>Social status</strong></td>
<td>Hierarchical</td>
<td>Egalitarian</td>
</tr>
<tr>
<td><strong>Relationship</strong></td>
<td>Beyond business</td>
<td>Business networking</td>
</tr>
<tr>
<td><strong>Logic</strong></td>
<td>Interrelated</td>
<td>Sequential</td>
</tr>
<tr>
<td><strong>Approach</strong></td>
<td>Authoritarian</td>
<td>Open to discussion</td>
</tr>
<tr>
<td><strong>Means</strong></td>
<td>Enforcement of order</td>
<td>Fact-oriented</td>
</tr>
<tr>
<td><strong>Channels</strong></td>
<td>Relationship</td>
<td>Information</td>
</tr>
<tr>
<td><strong>Durations</strong></td>
<td>Long term</td>
<td>Short or medium term</td>
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