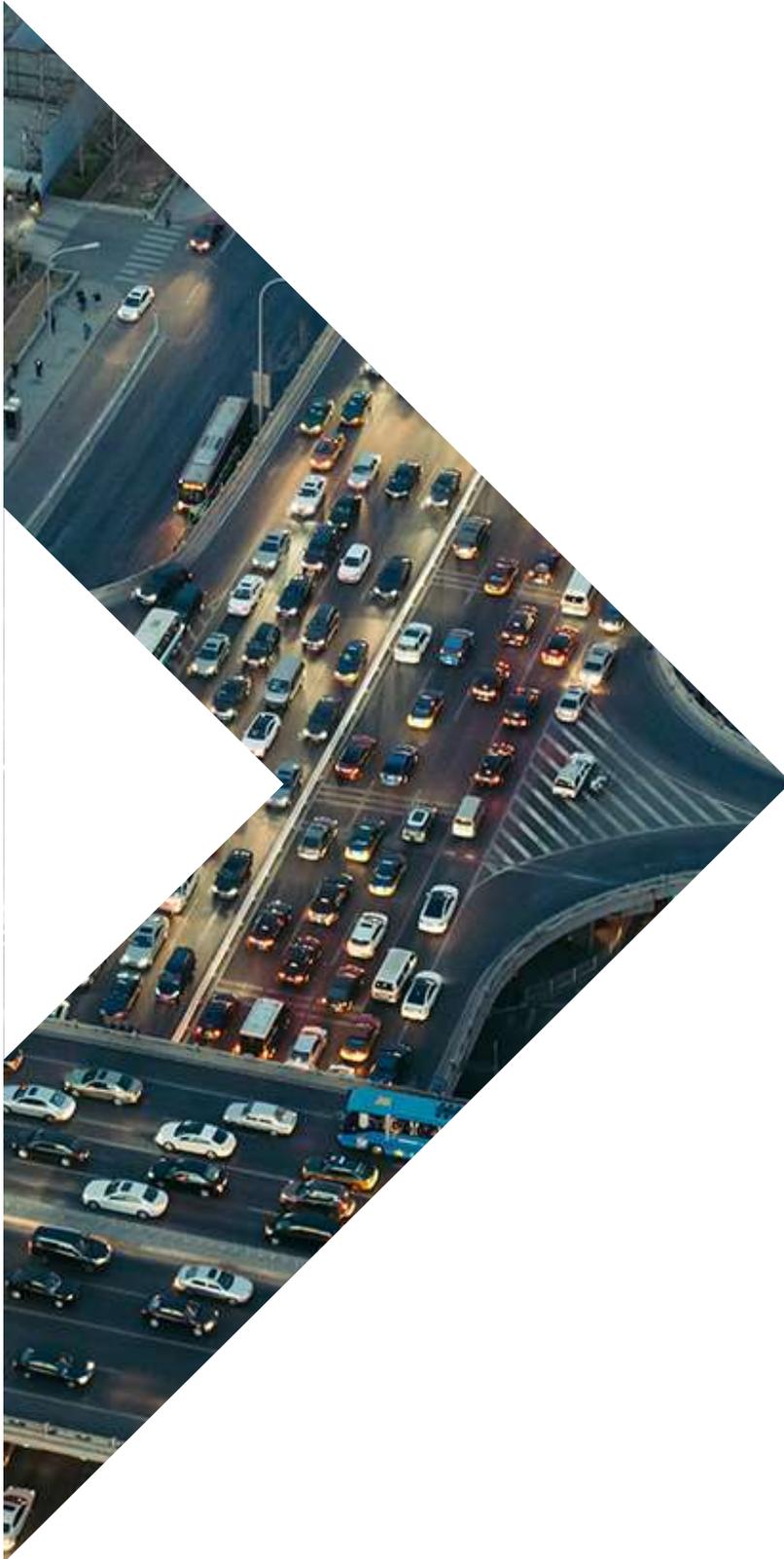


## Control Risks for the automotive industry

Driving growth with insight and intelligence –  
Creating secure, compliant and resilient  
businesses

General  
November 2017







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## Embracing change

The automotive industry is in a period of profound transition. Previously familiar markets are changing and uncertainty has become normal.

Vehicle manufacturers, their suppliers and dealers are facing unprecedented challenges from geopolitical risks that have impacted customer demand and investment decisions. Political flux in key markets, regulatory changes and stricter enforcement of existing legislation increase the risk of reputational damage and prosecution.

But this time of challenges is also one of huge potential for growth from new technologies, changing mobility models and new markets.

Control Risks works with businesses across the automotive industry to evaluate strategic opportunities and risks, shaping their success for the future.

## Delivering growth and opportunity

Globally, Control Risks has a team of more than 80 political risk analysts, one of the largest in the industry. Our analysts are specialists in the countries and regions they cover. They live and work all around the world, monitoring events and trends on a daily basis and analysing their implications for business.

If you are seeking new markets, we inform strategic decision-making, enabling you to identify and take advantage of opportunities across the globe. For your existing projects, we alert you to changing circumstances that could adversely affect your operations and growth strategies.

Our experts gather and analyse information to provide context for your planned investments, providing insight into political and regulatory dynamics, operating environments specific to the automotive industry, local community issues, the competitive landscape, previous companies' experiences and local security conditions.

We analyse the interests and activities of political and regulatory decision-makers, as well as other stakeholders who can influence the success or otherwise of your projects. We then create tailored recommendations for engagement and risk management strategies for market entry.



## Creating secure, compliant and resilient businesses

### Intelligence and insight

Business intelligence in many markets should be considered a strategic imperative which helps you to take smarter, intelligence-led decisions on the basis of a contextual analysis of risks. Some jurisdictions are characterised by low levels of transparency, influential relationship networks and shifting alliances. Understanding the local context can make or break an investment. Increasing application of regulatory and compliance regimes in home markets adds to the pressure to build compliant and resilient businesses.

Control Risks provides relevant, confidential insights into the parties involved in business transactions. This insight can fill knowledge gaps and satisfy regulatory requirements.

Our specialist investigations inform your strategy and tactics. Covering companies and individuals, our pre-transaction reputational due diligence work supports both deals and recruitment. Our enquiries are undertaken with sources that have close knowledge of the relevant people or companies, but without disclosing your interest to the market.

### Compliance programmes

To complement internal initiatives to combat corruption, or as a stand-alone project, Control Risks offers a strategic audit and review to assess the effectiveness of existing integrity policies, identify weak spots and recommend solutions. We then refresh or reinforce existing policies and provide defences against reputational damage. Control Risks firmly believes that effective compliance programmes create long-term competitive advantage.

### Resilience planning

We live in a time where businesses need to plan for interruptions, ranging from persistent low-level theft to industrial accidents, natural disasters, physical threat of violence and even military conflict. By working closely with you, we enable you to protect your people and assets for the long term.

Loss of life, intellectual property, physical assets and damages to your reputation can have a devastating impact on a business. Duty of care obligations mean you must take responsibility for your people wherever they are employed. From strategic advice to practical, on-the-ground services, we provide integrated solutions to meet all your security risk management requirements.

By developing crisis and resilience plans for specific needs in any region of the world, we help you respond to and recover from unexpected incidents and crises.

With our help, you can work in some of the most difficult regions with confidence and fully embrace new opportunities for growth.



## Resolving critical issues and crises

Failure to fully understand your markets creates legal, compliance and operational vulnerabilities for both corporate headquarters and your personnel and assets in that market. This is particularly the case where linguistic and cultural differences, and distance from headquarters often result in managers failing to spot vulnerabilities or challenge existing business practices.

Every year Control Risks supports clients who have been the victims of fraud and wrongdoing from local managers. Control Risks works with you to investigate potential fraudulent attacks within your organisations and prevent their recurrence. We help to identify the perpetrators of fraud and secure evidence for disciplinary or legal follow-up. After the event, we help you put in place policies and controls to reduce the likelihood of future breaches. We work across all jurisdictions to support you, using our understanding of what motivates people to commit commercial crime, as well as our knowledge of loopholes and common practices that criminals can exploit.

We work closely with you and your legal advisors to craft appropriate solutions for each individual project. With trained forensic consultants spread across our office network, supported by our worldwide team of investigators, we provide a responsive, local and compliant forensic offering. Our digital forensic services include electronic data collections from computers, servers, mobile devices, SIMs, and internet services, as well as professional reporting, analysis and evidential production.

We further assist you to identify, trace, freeze and recover financial and physical assets, if needed. Where tangible assets cannot be identified, we help clients to establish strategic assets that may support legal efforts towards recovery.

### Crisis response service

Control Risks is the world's leading provider of crisis response services. In the event of a business interruption, expertise from Control Risks can help keep the impact, costs and reputational damage to a minimum.

We prepare your business to reduce the impact of business disruption events across the full spectrum of potential hazards. Control Risks' crisis management and business continuity consulting teams work to ensure that you are well-placed to maintain competitive advantage by recovering from crises quickly and efficiently.

Our approach ensures that your crisis management and business continuity programme is seamlessly integrated into your wider risk management strategy and is therefore closely tied to our Enterprise Resilience solutions.



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## Specialist knowledge across the sector globally

Control Risks has worked for:

- ▶ 80% of the leading automotive producers
- ▶ 80% of the top 20 global OEM parts suppliers

We offer

- ▶ A truly global footprint
- ▶ Tailored market and sector analysis, enhanced by our alliance with Oxford Economics
- ▶ Actionable advice rather than complex consulting jargon
- ▶ A personal client relationship and high-level support for each and every client

By accessing Control Risks' consultants globally, you tap into the vast intellectual and operational resources of one of the world's leading specialist risk consultancies and its partner companies.

Our solutions are intelligence-driven and implementable. Our consultants come from diverse backgrounds – they include colleagues that have worked in law enforcement, business people, lawyers, intelligence officials and forensic accountants – and they specialise in sourcing and analysing hard-to-find information and intelligence.

We work closely with our alliance partners Hiscox, International SOS and Oxford Economics to support you globally, offering an unparalleled combination of analytical capability and on-the-ground capacity across business, security, cyber, political, operational, reputational, economic and medical risks.



## Our work for automotive clients

### China: Regulatory risk and crisis preparedness

#### Situation

After the announcement of the 'zero tolerance' approach towards corruption by the Chinese government in 2014, our client, a global automotive manufacturer, needed assistance to identify the range of relevant regulatory agencies. Given the experiences of some other international companies in China, Control Risks was also tasked with developing proactive and reactive strategies around the possibility of a police raid of the client's sites in the event of an investigation by the authorities.

#### Control Risks approach

We provided an in-depth analysis of the relevant policies, regulations and laws, and the specific behaviours and other factors determining the targeting of investigations. The team provided a profile of key actors, their roles, capabilities and intent, and their modus operandi. On the basis of this information we also drew initial conclusions on the situation, outlook and implications for the client, and recommended next steps and key messages for the leadership team. Control Risks subsequently developed a China response protocol. The protocol defined a China crisis management team, a number of ancillary teams (for example a 'tactical response team' and a 'strategic recovery team'), and the objectives for a number of work streams for compliance and investigation, corporate affairs, communications, etc. We also provided training exercises to members of the China crisis/response team and to those who had front-line responsibilities when responding to regulators' visits.

#### Client outcome

The analysis, plans and training we provided were crucial tools to help develop a nuanced view on the threats resulting from the regulatory changes. We gave the client and its employees confidence that they had the knowledge and protocols to react effectively should an incident occur.

### Germany and Russia: Fraud investigation

#### Situation

Following an internal audit, an international automotive conglomerate uncovered indications of embezzlement, fraud and customs irregularities. Control Risks was asked to investigate what was happening, who was involved and if possible, to support potential legal actions against the actors.



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### **Control Risks approach**

The client suspected that senior managers of one of their German subsidiaries and of a Russian joint venture partner were involved in the alleged fraud. Comprehensive public record research and confidential source enquiries directly established connections between several of the subjects. We provided the client with an overview of customs regulations and procedures in relation to trading between Germany and Russia. The team secured and digitalised an extensive paper archive as well as information stored on relevant company hard drives. The analysis of this data showed that the key principals of the client's German subsidiary had been negligent in the performance of managerial duties and did not act on obvious indications of fraud at the Russian joint venture. The findings were systematically documented for potential use in court. As a further line of enquiry, we carried out investigative interviews with key personnel of the German subsidiary as well as with whistleblowers in Russia.

### **Client outcome**

Our overall findings uncovered strong indications of money laundering. Based on our advice the client decided to self-report the suspected money laundering to the German authorities. Furthermore, on the basis of our findings, the client was assessing its legal options in seeking redress from the former directors of its German subsidiary. Our advice allowed the client to successfully restructure the international business of its German subsidiary.

## **Iran: Market-entry assessment**

### **Situation**

A leading automotive manufacturer asked for help to structure their market entry into Iran. Automotive is the second largest sector in Iran's economy. It is exposed to protectionism, local content requirements and political interference from the Islamic Revolutionary Guard Corps (IRGC) and large charities that are also business conglomerates (bonyads). Iran is seeking foreign investment and expertise in this sector because of low investment and slow technological development in recent years. Our client required analysis of key stakeholders in the sector, and an assessment of whether regulation was enforced or likely to change. Beyond these sector-specific issues, our client also wanted to understand the broader risks of doing business in Iran.

### **Control Risks approach**

We have been tracking the issues around the Iran sanctions right from their initial imposition through their partial lifting following the JCPOA accord.

Taking into consideration our client's concerns, our experts re-assessed the outlook for the nuclear agreement and sanctions risks. We also analysed the corporate governance challenges posed by Iranian business practices and corruption, and the reputational risks that interest groups in the US and the Middle East could pose to our client if they went into Iran.



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We also conducted due diligence into an Iranian company that our client was considering as a partner for distribution and manufacturing. We profiled the organisation's corporate structure, business relationships, and reputation in Iran and with multinational companies.

### **Client outcome**

Based on this information, Control Risks provided practical recommendations to the client about how to structure its market-entry, ensure compliance with sanctions and manage their exposure to political and reputational risks. Our client decided to proceed with distribution agreements, with a longer-term aim of manufacturing once certain internal and external milestones have been reached.

## Algeria: Due diligence and financial review

### **Situation**

Algeria's automotive sector has seen a number of regulatory changes in recent years, which have shaped a new market structure. Notably in 2014, with the aim of reducing the outward flow of foreign currency, the state imposed a requirement that importers must, by 31 December 2016, invest in factories. Our client approached us to discuss its corporate development strategy and a number of potential partners for setting up an assembly facility in the country.

### **Control Risks approach**

Over the course of six weeks, our team conducted reputational due diligence enquiries, reference checks with nominated associates, and a financial review of information provided by the prospective partners. Our in-house Algeria analysts focused on assessing the key integrity challenges the client was likely to face in operating through a local partner in the automotive sector and provided context around political stability and expected future changes.

### **Client outcome**

Our assessment revealed no major issues of reputational concern around the potential partners. However, the financial review showed that one prospective partner was experiencing a severe shortage of liquidity which was expected to impact their ability to invest capital into the assembly facility. With this information, the client could take a well-informed decision on their local joint venture partner and set up the assembly facility in the country.

## US: Supporting a smooth exit strategy

### **Situation**

A US automotive company was considering the sale of one of its subsidiaries to another firm. The customers of the company to be sold overlapped considerably with those of other companies the client would continue to own and



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operate. Against this backdrop, and considering the importance the client placed on its reputation, our client wanted to ensure that it had found a buyer that would not jeopardise quality standards, manage the company successfully and maintain customer satisfaction.

### **Control Risks approach**

Control Risks proposed an assessment of the buyer's track record as an owner and operator, including a comparative analysis of the reputations of the companies in the buyer's portfolio before and after it had acquired them. Control Risks compared legal, financial and other public records and conducted discreet interviews with the companies' customers, employees, competitors, vendors and partners. Our investigation found that the companies' reputations had improved, incidence of litigation against the companies tended to decrease, and that customers generally reported higher levels of satisfaction, post-acquisition by the buyer. Employees were similarly enthusiastic, reporting that the buyer's executive team proactively addressed long-standing problems and helped to create more efficient, productive and pleasant work environments.

### **Client outcome**

Control Risks' investigation yielded comprehensive insight that gave the client faith in the buyer and confidence to move forward with the transaction. A year after the sale, the buyer has been operating the company to the satisfaction of our client and its customers, and the client has experienced no backlash from the transaction.



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## About Control Risks

Control Risks exists to make our clients succeed. We are a specialist risk consultancy that helps to create secure, compliant and resilient organisations in an age of ever-changing risk.

Working across disciplines, technologies and geographies, everything we do is based on our belief that taking risks is essential to our clients' success.

We provide you with the insight to focus resources and ensure you are prepared to resolve the issues and crises that occur in any ambitious global organisation.

We go beyond problem-solving and give you the insight and intelligence you need to realise opportunities and grow. From the boardroom to the remotest location, we have developed an unparalleled ability to bring order to chaos and reassurance to anxiety.

To learn more about our work, visit [www.controlrisks.com](http://www.controlrisks.com)

## The global automotive team

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