Strategies for German investors to reduce corruption and occupational fraud in El Salvadorian FDIs

by

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I. Abstract

Nearly every organization, regardless of size, type, or industry faces threats associated with corruption, abuse and occupational fraud (Hodge, 2012). Recently, also small and medium sized companies (SMEs) are becoming aware of these threats but many of them still lack a proper risk management to cope with such increasing threats (Funk RMCE et al., 2011). The exposure to these risks increases tremendously when companies establish Foreign Direct Investments (FDIs) and the strategies to reduce a company’s exposure to them become more complex, because investors have to operate in a cultural environment, which is different from their home country. The aim of this case study is to develop appropriate, practically oriented strategies for investors to avoid or at least to reduce threats of corruption and occupational fraud when they undertake an FDI into El Salvador.

A qualitative research methodology is the favourable approach to solve this problem in the real business world, because this research question deals with corruption and occupational fraud, which are very complex research problems with high levels of uncertainty and a need to act flexible (Corbin and Strauss, 2008). The data collection in El Salvador has been undertaken in the form of semi-structured interviews with managers and owners of companies, as well as individuals, people working for NGO’s (Non Governmental Organizations) and business consultants. The empirical data have been analyzed by grounded theory to develop practically oriented strategies for investors.

The research suggests managing corruption by (1) implementing strict rules and procedures, (2) strictly saying no to corruption, (3) avoiding governmental contracting, (4) being in a favourable position by offering competitive products, (5) providing enough funds to support the implementation of the FDI, (6) maintaining a certain tolerance towards an “acceptable” level of corruption and finally (7) working together with lobbyists and intermediaries, so that one does not get involved directly into corruption. Occupational fraud within the FDI can be reduced by (1) profound knowledge of one’s business, (2) advanced HR recruitment and well designed management processes, (3) a good working climate, (4) a variety of controls including latest technology, (5) organizational
and managerial strategies, which must fit to the cultural environment of El Salvador, (6) a cooperation with third parties and finally (7) the support of external consultants. Investors have to select the location of their business carefully, should not show any wealth, have to invest into security and are advised not responding to extortions to face the threat of El Salvadorian youth gangs (maras).
II. Declaration of originality

I declare that my thesis entitled “Strategies for German investors to reduce corruption and occupational fraud in El Salvadorian FDIs” and the work to which it refers are the results of my own efforts. Any ideas, data, images or text resulting from the work of others (whether published or unpublished) are fully identified as such within the work and attributed to their originator in the text of bibliography. This thesis has not been submitted in whole or in part for any other academic degree or professional qualification. I agree that the University has the right to submit my work to the plagiarism detection service TurnitinUK for originality checks. Whether or not drafts have been so-assessed, the University reserves the right to require an electronic version of the final document (as submitted) for assessment as above.

Signature:

Gregor B. Sommer

Date:
III. Table of contents

I. Abstract ............................................................................................................................................ II

II. Declaration of originality ............................................................................................................. IV

III. Table of contents ........................................................................................................................... V

IV. List of Tables ................................................................................................................................. IX

V. List of Figures........................................................................................................................... IX

VI. Acknowledgements ....................................................................................................................... X

VII. Abbreviations and glossary ....................................................................................................... XI

1. Introduction ..................................................................................................................................... 1

2. Literature review ........................................................................................................................... 4

   2.1. Introduction ............................................................................................................................. 4

   2.2. Motives for companies to undertake FDIs .......................................................................... 5

       2.2.1. Definition of FDI ............................................................................................................... 5

       2.2.2. Investor driven motives ................................................................................................. 5

       2.2.3. Host country driven motives ......................................................................................... 6

   2.3. Problems which can face the investor ............................................................................... 10

       2.3.1. Problems of the investor .............................................................................................. 10

       2.3.2. Problems of the host country ...................................................................................... 12

   2.4. Corruption and occupational fraud .................................................................................... 17

       2.4.1. Definition of corruption ............................................................................................... 18

       2.4.2. Definition of fraud ........................................................................................................ 19

       2.4.3. Difficulties in research on corruption and occupational fraud .............................. 19

       2.4.4. Forms of corruption ...................................................................................................... 20

       2.4.5. Parties involved in corruption ..................................................................................... 22

   2.5. Factors fostering corruption and occupational fraud in emerging markets ................. 23

       2.5.1. Culture, society and past heritage .............................................................................. 23

       2.5.2. Economic issues ........................................................................................................... 25

       2.5.3. Geographic issues of the host country ....................................................................... 27

       2.5.4. Factors fostering corruption within organizations .................................................... 28

       2.5.5. Motivations for companies and people to behave in a corrupt way ....................... 30

       2.5.6. Reasons why SMEs are more exposed to corruption ................................................ 33
2.6. Effects of corruption ...........................................................................................................35
  2.6.1. Negative effects of corruption for economies ...............................................................35
  2.6.2. Positive effects of corruption for economies .................................................................38
  2.6.3. Negative effects of corruption for companies ...............................................................39
  2.6.4. Positive effects of corruption for companies .................................................................45
2.7. How to detect corruption and occupational fraud .............................................................45
2.8. Strategies how to fight against corruption and occupational fraud ...............................46
2.9. Problems which can arise during the implementation process of the strategies ..........63
2.10. Summary of the literature review and implications for this research .........................67
3. Methodology ................................................................................................................................70
  3.1. Research question: aims and objectives ...........................................................................70
  3.2. Qualitative vs. quantitative approach ...............................................................................70
  3.3. Philosophical and epistemological underpinnings ..........................................................73
    3.3.1. Inductive Approach .......................................................................................................73
    3.3.2. Interpretivism ...............................................................................................................74
    3.3.3. Pragmatism ..................................................................................................................74
  3.4. Data gathering ....................................................................................................................75
  3.5. Data sources ......................................................................................................................76
  3.6. Grounded Theory to analyze the data .............................................................................79
  3.7. Limitations ........................................................................................................................81
  3.8. Ethical considerations .......................................................................................................82
  3.9. Interview process and evaluation of the data ................................................................83
4. Findings of the interviews ...........................................................................................................86
  4.1. Introduction .......................................................................................................................86
  4.2. How to avoid corruption ....................................................................................................89
    4.2.1. Avoiding business with the government ....................................................................89
    4.2.2. Management offering a good example ......................................................................90
    4.2.3. Strictly saying no to corruption ...............................................................................91
    4.2.4. Tolerating a certain level of corruption ...................................................................93
    4.2.5. Patience and being in a favourable position not to bribe .........................................97
    4.2.6. Always following the rules .......................................................................................99
    4.2.7. Using intermediaries to do the dirty work and lobbying .......................................99
  4.3. How to avoid occupational fraud .....................................................................................101
    4.3.1. “Tropicalizing” the strategies to the cultural environment ......................................101
4.3.2. Hiring trusted people and installing trusted people in key positions ..........102
4.3.3. Knowing one’s business and its processes...........................................105
4.3.4. Paying and treating employees fair, training them and taking care of them ...107
4.3.5. Strictly prosecuting offenders..................................................................110
4.3.6. Controlling employees and continuous controls within the company ..........112
4.3.7. Learning from past incidents and continuously updating strategies ...........116
4.3.8. Installing organizational and physical issues and external consultants ........118
4.3.9. Implementing written codes of ethics.......................................................120
4.3.10. Working together and benchmarking with others ....................................121
4.3.11. Maintaining a good business climate .....................................................122
4.3.12. Focusing and streamlining the business ..................................................123
4.3.13. Downsizing the business and keeping it small ........................................124
4.3.14. Implementing job rotation .......................................................................126
4.3.15. Certifying the company ..........................................................................127
4.3.16. Checking outsourced activities ...............................................................128
4.3.17. Implementing a whistle-blower-hotline ...................................................129
4.3.18. Insuring against occupational fraud .......................................................130
4.4. Maras ............................................................................................................132
4.4.1. Maras are an increasing threat for society and for the economy ................132
4.4.2. Avoiding an excessive life style and keeping information confidential ........134
4.4.3. Avoiding specific areas and business locations .........................................135
4.4.4. Rejecting extortions and asking the police for help ..................................136
4.4.5. Cooperating with maras ............................................................................136
5. Analysis of the findings .....................................................................................138
5.1. Introduction ....................................................................................................138
5.2. Strategies and tactical approaches to avoid corruption in FDIs ....................138
5.2.1. Implementing strict rules and procedures ..................................................138
5.2.2. Maintaining a certain degree of pragmatism in the business .......................139
5.3. Strategies and tactical approaches to avoid occupational fraud ....................141
5.3.1. Knowledge is essential .............................................................................141
5.3.2. HR Management ......................................................................................142
5.3.3. Controls ....................................................................................................144
5.3.4. Set up, management and organization of the company ...............................146
5.4. Strategies and tactical approaches to manage mara crime .............................150
6. Conclusions ................................................................................................................. 154

6.1. Introduction ........................................................................................................... 154

6.2. How to avoid corruption in a FDI in El Salvador ............................................... 154

6.2.1. Implementing strict rules and procedures ...................................................... 154

6.2.2. Being in a favourable position ........................................................................ 155

6.2.3. Avoiding business with the government ......................................................... 156

6.2.4. Maintaining a certain degree of pragmatism in the business ......................... 157

6.3. How to avoid occupational fraud in a FDI in El Salvador .................................. 158

6.3.1. Knowing one's business and the related industry very well ............................ 158

6.3.2. Hiring trusted, competent employees and keeping them in key positions .... 160

6.3.3. Training employees and taking care of them ............................................... 162

6.3.4. Organizational issues ...................................................................................... 163

6.3.5. Strictly prosecuting offenders ......................................................................... 164

6.3.6. Management has to give good examples ....................................................... 166

6.3.7. Working together with third parties .............................................................. 167

6.3.8. Implementing adequate and effective controls .............................................. 168

6.3.9. Installing internal and external auditors ....................................................... 171

6.3.10. Implementing the latest technology ............................................................. 172

6.3.11. Set up, management and organization of the company ............................... 172

6.3.12. Establishing and publishing internal rules and principles ............................ 176

6.3.13. Implementing a whistle blower hotline ....................................................... 177

6.3.14. Safeguarding against risks .......................................................................... 178

6.3.15. Implementing a reporting system and keeping effective communication .... 179

6.4. How to deal with mara crime in El Salvador ..................................................... 180

6.5. Concluding remarks ............................................................................................ 183

6.6. Suggestions for further research ......................................................................... 186

Reflective Diary ............................................................................................................. 187

Reference List ............................................................................................................... 191

Appendix A .................................................................................................................... 213

Appendix B .................................................................................................................... 216

Appendix C .................................................................................................................... 221
IV. List of Tables

Table 1: motives for investors to undertake FDIs ................................................................. 6
Table 2: problems which can face the investor of a FDI ....................................................... 13
Table 3: strategies how to avoid corruption and occupational fraud .................................... 52
Table 4: evaluation of the strategies (corruption) ................................................................. 216
Table 5: evaluation of the strategies (occupational fraud) ................................................... 217
Table 6: evaluation of the strategies (mara crime) ............................................................... 220

V. List of Figures

Figure 1: Increased threats for SMEs in the internationalization process ......................... 1
Figure 2: How corruption is eating up positive effects for FDIs ......................................... 17
Figure 3: Forms of corruption: The Fraud Tree ................................................................. 21
Figure 4: The Fraud Triangle .............................................................................................. 32
Figure 5: Negative effects of corruption and fraud on the host country and on the FDI ....... 42
Figure 6: The vicious circle of corruption within companies ............................................. 44
Figure 7: The Heat Map as a tool to evaluate the risks of corruption and fraud ................. 48
Figure 8: Forms of corruption and occupational fraud discussed during the interviews ...... 88
Figure 9: Main strategies how to avoid corruption .............................................................. 89
Figure 10: Main strategies how to avoid occupational fraud ............................................. 101
Figure 11: key strategies in the involvement of government business ................................ 141
Figure 12: Strategies how to deal with mara crime ............................................................ 153
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## VII. Abbreviations and glossary

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>mara</td>
<td>Central American youth gang (Spanish term)</td>
</tr>
<tr>
<td>MCCCA</td>
<td>Mercado Común Centroamericano (Central American Common Market)</td>
</tr>
<tr>
<td>mordida</td>
<td>&quot;bite&quot; (El Salvadorian term for a bribe)</td>
</tr>
<tr>
<td>muchacha</td>
<td>housemaid (El Salvadorian term)</td>
</tr>
<tr>
<td>NGO</td>
<td>Non Governmental Organization</td>
</tr>
<tr>
<td>rutero</td>
<td>truck driver (El Salvadorian term)</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium-sized Enterprise</td>
</tr>
<tr>
<td>TEG</td>
<td>Tribunal de Ética Gubernamental - Ethical Tribunal of the Government of El Salvador (Spanish abbreviation)</td>
</tr>
<tr>
<td>USD</td>
<td>currency: United States Dollar</td>
</tr>
</tbody>
</table>
1. Introduction

Foreign direct investments into developing countries are in general riskier and have a higher degree of uncertainty and challenges compared with investments into developed countries which fulfil more or less the same standards as the investor’s home country. Kulhavy (1989, p. 5) explains that the farther away one operates a subsidiary, the higher are the “centrifugal forces” one has to deal with like cultural divergence, distance, time differences and increased efforts for managers to travel to the subsidiaries. The project management of such international projects “vary from domestic projects by their complexity of culture, politics, law, local practice, language, time zones, processes, resources and more” (Grisham, 2010, p. 2). As a result, investors are exposed to a higher level of corruption and occupational fraud (Poole-Robb and Bailey, 2002).

The following figure summarizes why FDI suffer from a higher degree of corruption and occupational fraud caused by the variety of external forces.

Figure 1: Increased threats for SMEs in the internationalization process

![Diagram showing increased threats for SMEs in the internationalization process]

Source: by the author
The aim of this study is to develop strategies which can help German SMEs to successfully set up and operate their FDIs in developing countries where they have to deal with higher levels of corruption and occupational fraud. The outcome of the research is to identify relevant problems and critical success factors as well as “practically oriented solutions” which will help managers of German SMEs to be aware of pitfalls before they start investing into mostly political, legal and economic unstable environments in emerging market economies. The results of this research should help German SMEs establishing and operating a FDI into El Salvador, as well as investors from other countries to minimize their risk of failure, loss of money or even threatening the parent company in their home base because they have not been able to manage risks “outside their normal day-to-day experience” (Poole-Robb and Bailey, 2002).

The central research question is: “What strategies should German SMEs apply to detect and to avoid the threats of corruption and occupational fraud when they undertake a FDI into El Salvador?”

The following sub-questions help to answer this question:

- Why do companies undertake FDIs?
- What are potential risks for the investor in general when investing in foreign countries?
- What are potential risks of corruption and occupational fraud within the organization and how can they negatively affect or even harm the organization?
- What factors foster corruption and occupational fraud in emerging market economies?
- How can these risks be detected and be avoided?
- What are appropriate strategies for investors based on the practical knowledge already applied by existing investors in El Salvador?
- What are possible threats for the successful implementation of these strategies?
In the literature review, motives why investors undertake a FDI and potential problems, which can face them during the investment process into emerging economies, are discussed. In the next step, corruption and occupational fraud as specific problems are distilled. The factors, which can foster corruption and occupational fraud, are explained. Positive as well as negative effects of corruption for economies and for companies are displayed. Then, strategies how to avoid corruption and occupational fraud, as well as problems during the implementation of these strategies are discussed. Finally, the main ideas out of the literature review are distilled.

In the next chapter, the methodology for this research project is discussed. It is explained, why a qualitative methodology is an appropriate way to answer the research question. The data collection with unstructured interviews is discussed and it is explained, why the data analysis with Grounded Theory is the appropriate strategy for this topic. Finally, the limitations of this methodology study for this research question, as well as ethical considerations are discussed and the data collection process is displayed.

Then, the findings of the interviews are illustrated. The information is clustered into main ideas including best practice examples of the interviewees. In the following chapter, the findings are condensed and categorized to find similar concepts. These concepts and ideas are applied to generate strategies, how investors can eliminate or at least reduce their exposure to corruption, occupational fraud and the increased threat caused by maras.

Finally, these strategies are triangulated with existing literature and the knowledge of experts. That chapter closes with concluding remarks, discusses limitations of this work and gives suggestions for further research.

The reflective diary displays the academic development of the researcher during the research process and discusses how the knowledge acquired during the DBA programme will help to improve and to enrich the professional work of the researcher.
2. Literature review

2.1. Introduction

Internationalization is not a new trend in the business world. Wilkins (1970, p.3) explains that "from the period of the earliest known civilization in 2,500 B.C., Sumerian merchants found in their foreign commerce that they needed men stationed abroad to receive, to store, and to sell their goods." Technological advances in communication, information, transport, finance and production make it easier to invest in foreign markets, and bring the world closer together (Knight and Cavusgil, 2004; Hummel, 1994). Especially emerging market economies provide numerous opportunities for FDIs (Chudnovsky et al., 1985).

However, business strategy and operations in non-domestic markets expose companies to risks like corruption and occupational fraud outside their normal day-to-day experience (Poole-Rob and Bailey, 2002). Corruption can decrease the level of success of FDIs in the host country, can lead to lower profitability of the investment and also reduces the advantages of the host country (Mauro, 1995; Shleifer and Vishny, 1993). Corruption has also negative social consequences for the host country like poverty, poor infrastructure and a higher level of organized crime (The World Bank, 2000). El Salvador suffers from a considerably high rate of criminal violence, resulting in organized crime, youth gangs and street crime (Cruz, 2011), which is an additional threat for investors.

It is essential to watch for "red flags" and other irregularities and to improve control mechanisms continuously for detecting corrupt activities within the company and when dealing with third parties and other stakeholders (Albrecht et al., 2011, p. 179; Globalt Ansvar, 2008). Organizational processes have to be redesigned to eliminate corruptive actions and top management has to work on the social culture within the FDI (Hess and Dunfee, 2000; Kroll, 2010). Doig (1998) and VDMA (2010) recommend a practical, pragmatic approach to implement anti corruption strategies in companies which have to be integrated into the strategic management of the FDI successfully. It will not be possible to completely eliminate corruption within organizations, but appropriate strategies can at least help to minimize corruption and occupational fraud and their negative effects on FDIs.
2.2. Motives for companies to undertake FDIs

2.2.1. Definition of FDI

The OECD (1996, p.7) defines foreign direct investment (FDI) as "the objective of obtaining a lasting interest by a resident entity in one economy ("direct investor") in an entity resident in an economy other than that of the investor ("direct investment enterprise")". The long lasting interest and a significant degree of influence on the management distinguish FDIs from portfolio investment (OECD, 1996; Hymer, 1960/1976).

There exists a wide variety of reasons, why companies invest into foreign countries. Berger and Uhlmann (1985) and Calvet (1981, p.53) have clustered the motives for internationalization into two basic categories: (1) motives stemming from the investor and (2) motives stemming from the "attractiveness" of the host country.

2.2.2. Investor driven motives

The driving force to internationalize can stem from the entrepreneur (Mohr, 2008) or from the entrepreneurial internationalization, which is linked directly and cyclically, to various aspects of firm performance like market success, level of risk awareness or organizational learning (Jones and Coviello, 2005, p. 299; Acedo and Florin, 2006). Such business driven decisions can be supported by personal motives of the entrepreneur e.g. because he found sympathy for the region (Kulhavy, 1989; Wolf, 2009).

Penrose (1960) states that it is necessary to grow a firm by finding and integrating new resources which can be done by going international. Berger and Uhlmann (1985) recommend internationalizing to achieve higher returns of investment. The internationalization can also be driven by the success of the company and its products in the home country and the intention to transfer this success to other countries (Hummel, 1994).
2.2.3. Host country driven motives

Some motives are market driven - e.g. the globalization of markets (Knight and Cavusgil, 2004). Internationalization offers companies the chance to exploit economies of scale and higher profits in new and fast growing markets and helps them to secure the entry into these markets (Sethi et al., 2003; Li and Li, 1999).

Other investors seek to participate from tax incentives, preferential policies and government grants for FDIs in the host countries (Li and Li, 1999). Labour intensive companies want to participate from lower labour costs in developing countries (Reitmeier, 2008). Some entrepreneurs are forced to internationalize, because their competitors have done so; other companies want to be closer to their customers, want to develop new sources of supply or need to secure sources of supply to other parts of the company group (Li and Li, 1999; Halbach, 1983).

The following table summarises the wide variety of motives for investors.

Table 1: motives for investors to undertake FDIs

<table>
<thead>
<tr>
<th>Motive</th>
<th>Authors</th>
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<tbody>
<tr>
<td><strong>1. Motives coming from the investor</strong></td>
<td>***************</td>
</tr>
<tr>
<td>• exploiting economies of scale within the company group</td>
<td></td>
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<tr>
<td>• internalizing profit through vertical integration along the value chain,</td>
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<tr>
<td>• increasing profitability through controlling enterprises in more than one country</td>
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<tr>
<td>• developing new sources of raw materials and energy supply</td>
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<tr>
<td>• avoiding high production costs of the domestic market</td>
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<tr>
<td>• securing sources of supply to other parts of the company group</td>
<td></td>
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<tr>
<td>• establishing better access to newly developed technology</td>
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<tr>
<td>• improving network relationships,</td>
<td></td>
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<tr>
<td>• utilizing excess production capacities in the home country</td>
<td></td>
</tr>
<tr>
<td>Motives coming from the investor (continued)</td>
<td>Authors</td>
</tr>
<tr>
<td>---------------------------------------------</td>
<td>---------</td>
</tr>
<tr>
<td><strong>Market:</strong></td>
<td>Chudnovsky et al. (1985), Kuo and Li (2003), McGregor (2005), Armario et al. (2008)</td>
</tr>
<tr>
<td>- market orientation</td>
<td></td>
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<tr>
<td>- following major clients</td>
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<td>- globalization of the markets</td>
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<tr>
<td>- escaping recession in the home country</td>
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<tr>
<td>- exploiting the advantages of the own company it possesses relative to firms from another country (e.g. OLI advantages)</td>
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<tr>
<td>- acquiring gradual knowledge of the foreign market (Uppsala Internationalization Model)</td>
<td></td>
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<tr>
<td>- being born as global companies, which develop through a series of evolutionary stages</td>
<td></td>
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<tr>
<td>- growing the company</td>
<td></td>
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<tr>
<td>- being successful in one country with its product is a good reason for companies to internationalize</td>
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<tr>
<td>- expanding the product lifecycle</td>
<td></td>
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<tr>
<td>- having already good experience with the market as an export market</td>
<td></td>
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<tr>
<td>- reducing political and financial risks by investing into more than one country</td>
<td></td>
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<tr>
<td>- increasing company reputation</td>
<td></td>
</tr>
<tr>
<td>- international entrepreneurship</td>
<td></td>
</tr>
<tr>
<td>- personal motivation of the entrepreneur</td>
<td></td>
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<tr>
<td>- cognition and risk perception of the entrepreneur</td>
<td></td>
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<tr>
<td>- increased international knowledge</td>
<td></td>
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<tr>
<td>- high strategic (proactive) orientation of the owners/managers</td>
<td></td>
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</table>
## 2. Motives stemming from the host country

<table>
<thead>
<tr>
<th><strong>Market:</strong></th>
<th><strong>Authors</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>- increasing market size</td>
<td></td>
</tr>
<tr>
<td>- exploiting the benefits of monopoly in new geographical areas</td>
<td></td>
</tr>
<tr>
<td>- exploiting imperfections of the foreign market</td>
<td></td>
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<tr>
<td>- using the host market as a stepping stone for servicing other countries in the region</td>
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<tr>
<td>- increasing the marketing activities in the host country market</td>
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<tr>
<td>- getting closer to main customers in foreign countries in order to respond to their changing demands more quickly and to reduce transportation costs</td>
<td></td>
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<tr>
<td>- being forced by competitors</td>
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<tr>
<td>- having already good experience with the market as an export market</td>
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<table>
<thead>
<tr>
<th><strong>Privatizations:</strong></th>
<th><strong>Authors</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>- increased privatizations in the host country</td>
<td>Chudnovsky et al. (1985), Levin and Satarov (2000)</td>
</tr>
<tr>
<td>- ease with which on can buy existing firms</td>
<td></td>
</tr>
<tr>
<td>- more liberalization in the host country</td>
<td></td>
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<table>
<thead>
<tr>
<th><strong>Supply and production:</strong></th>
<th><strong>Authors</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>- achieving economies of scale</td>
<td></td>
</tr>
<tr>
<td>- being able to modernize the home production with additional profits generated by the FDI</td>
<td></td>
</tr>
<tr>
<td>- supplying the home market with products produced in the host market</td>
<td></td>
</tr>
<tr>
<td>- using obsolete production equipment in the home base further on in the host country</td>
<td></td>
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<tr>
<td>- securing access to raw materials</td>
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<td>Motives stemming from the host country (continued)</td>
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<tr>
<td>• taking advantage of tax incentives of the home country and of the host country</td>
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<td>• bypassing heavy import duties at the national border</td>
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<td>• exploiting preferential policies and government grants for FDIs in foreign countries,</td>
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<td>• bypassing strict laws and regulations (e.g. regarding the protection of the environment) in the home country</td>
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<td>• eliminating or reducing the exchange risk</td>
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<td>• avoiding discrimination by government, by consumers, and by suppliers in the host country</td>
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<tr>
<td>• reducing the risk of expropriation in one country by setting up a plant in another country</td>
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<td>• substituting centralized decision making by decentralized decision making to remove conflict within the company group</td>
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<tr>
<td>• securing the value chain</td>
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<tr>
<td>• taking advantage of the infrastructure, the workforce, knowledge, legal regulations, technology and of suppliers in the host country</td>
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<tr>
<td>• participating from increased advances in communication, finance, production techniques and logistics</td>
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<td>• globalization and political agreements regarding trade liberalization e.g. WTO</td>
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<td>• end of the cold war</td>
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<td>• socio-political events, increased opportunities and lower levels of risks</td>
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</table>
2.3. Problems which can face the investor

Berger and Uhlmann (1985) classify possible problems for investors into two categories: (1) problems, which are caused by the investor himself e.g. lack of financial or personnel resources and (2) problems which stem from the host country e.g. an inadequate infrastructure or an unstable political environment.

2.3.1. Problems of the investor

The choice of entry mode is an important part of a firm's foreign investment strategy (Chang and Rosenzweig, 2001). The investor has to decide the legal form of the FDI (e.g. joint-venture or wholly foreign owned enterprise) and the timing of the implementation (Kulhavy, 1989; Ekeledo and Sivakumar, 1998; Gaba et al., 2002). The entry mode is a trade-off between control and the cost of resource commitment (Anderson and Gatignon, 1986) and is influenced by the ownership structure of the investor and the risk preferences of the main shareholders (Filatotchev et al., 2007). The form of the entry mode can also influence the success to overcome cultural barriers and corruption in the host country (Barkema et al., 1996). Especially SMEs face problems to find appropriate partners for a successful joint-venture (Kirby and Kaiser, 2005) and they are more exposed to corruption than larger companies which "can operate above the muck" because their deals are often very large and very visible (McGregor, 2005, p.119). FDIs differ from local investments "by their complexity of culture, politics, law, local practice, language, time zones, holidays, processes, resources and more" (Grisham, 2010, p.2). Foreign investments can threaten especially SMEs, which have fewer financial and personnel resources than multinational players and they lack international knowledge and access to networks (Hohenthal et al., 2003; Figueira-de-Lemos et al., 2011).

Buckley and Casson (2009) have discovered that the main problem in internationalization arises from the strategic complexity and shape out two main sources of complexity: (1) uncertainty involved in long term planning and (2) managing physical and social networks. Bartlett and Goshal (1987) add that it is difficult for managers to make their decisions in an organization whose operating units are often divided by distance, time and culture. The management of internal knowledge and the "internationalization of the
information" is still a hurdle for SMEs when they invest abroad (Liesch and Knight, 1999, p. 385). Additional threats can arise, when companies want to apply western business strategies, which are not always applicable in low income markets (London and Hart, 2004). Internationalization can lead at the beginning of the investment process to lower performance and productivity because essential resources like financial funds, machinery and skilled personnel are drawn away from the home base to build up the new subsidiary; this can lead to the loss of competitive advantages or even disadvantages in the home country (Lu and Beamish, 2001; Cuervo-Cazurra et al., 2007; Porter, 1985). Additional costs for implementing institutional processes and the knowledge transfer between the organizations in the home country and in the host country lower the profitability on both sides (Doz and Prahalad, 1984; Kogut and Zander, 1992). Underestimating the time frame as well as the costs for undertaking an investment abroad can lead to the failure of the FDI and in the worst case even result in bankruptcy of the investor (Grisham, 2010). Some investors underestimate the efforts required to align the company's own organizational capabilities for going international (Cavusgil et al., 2002). Sometimes, the pressure of time and money can be so hard, that the company may take into consideration committing illegal actions to achieve its goals and neglects control within the company due to financial constraints (Wells, 2007; Grisham, 2010).

The lack of cross cultural knowledge and cross-cultural competence of managers should not be underestimated. Even one single expatriate failure can lead to the failure of the FDI in the long run (Johnson et al., 2006). For example, Nike in the 1990s did not supervise their global supply chain well enough and allowed their facilities in Pakistan to employ children for the production of soccer balls (Grisham, 2010). When the company was held accountable by the public, Nike's managers neglected any responsibility and tried to bribe and to influence third parties instead (Boje and Khan, 2009). However, customers did not believe them and started boycotting Nike's products. It took Nike a lot of efforts, money and a long time to recover from their loss of reputation.
2.3.2. Problems of the host country

Managing essential relationships with various stakeholders, maintaining collaborative relationships in international environments and adopting them to the new environment can be harder than expected and can hinder the successful implementation of the FDI (Cavusgil et al., 2002; Day, 1994; Chen et al., 2004). Such business relationships cannot be solely developed and driven by the investor himself but are also influenced by a lot of third parties in the host country and it needs time for the investor to build up networks to manage these stakeholders (Johanson and Vahlne, 2003).

Cultural and geographic distance influence and sometimes hamper the entry (Kogut and Singh, 1988; Cai and Wang, 2010; Tseng and Zebregs, 2002). Managers have to cope with different cultural issues, which Hall (1960) describes as “the silent language in overseas business”. Cultural differences and different technical standards can influence the organizational culture of a company and its internal relationships which may reduce the performance of the FDI (Zhou et al., 2006; Kostova and Roth, 2002; Grisham, 2010). Fortunately, managers today are better aware of cultural differences than 20 years ago, based on their education and their increased knowledge through media and communication technology, which helps them to work in countries with dissimilar cultures (Tihanyi et al., 2005).

Investors in emerging countries still have to suffer from poor infrastructure, lack of adequate skilled personnel and low performing governments (Caslione and Thomas, 2000). The legal environment and the law enforcement in some countries can be relatively weak for foreign investors (Himmelmann and Hungerbach, 2005). In addition, investors have to cope with considerably higher rates of criminal violence, resulting in organized crime, youth gangs and street crime, because the political transition processes from authoritarian rule to neoliberal politics was not performed well enough (Cruz, 2011).

Finally, operating in a different cultural environment can bring up ethical issues because the company may get involved into crime, corruption, bribing, kidnapping and drug trafficking (Kahai, 2004; Wolf, 2009; Bishop and Hydolski, 2009). Linné (2011) argues that one of the most serious success factors for
German SMEs is to manage compliance, administration and corruption abroad. Hofstede (2001, p.112) argues that a major threat to the functioning on any administrative system is corruption; however, corruptive activities are sometimes necessary to satisfy the law (Himmelmann and Hungerbach, 2005) and to substitute the lack of bargaining power of SMEs (Grosse, 1996). Wei (2000) argues that corruption not only deters companies from undertaking the FDI but also increases the costs of operating the FDI, because corruption is like an additional tax for the investor. While Aidis and Mickiewicz (2006) see governmental corruption as the most important threat hampering business expansion, Okpara and Koumbiadis (2011, p.71) state that “surprisingly” corruption is ranked low among the obstacles of investors for not going international.

The following table summarises the main problems which can face the investor when undertaking a FDI, clustered into the two main areas “problems of the investor” and “problems of the host country”. The table also explains specific problems within these two main areas and gives practical examples, how these problems can face the investor.

Table 2: problems which can face the investor of a FDI

<table>
<thead>
<tr>
<th>Problem</th>
<th>Authors</th>
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<tr>
<td>1. Problems of the investor</td>
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<tr>
<td><strong>Strategy:</strong></td>
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<tr>
<td>• strategic complexity in international</td>
<td>Kogut and Singh (1988), Kulhavy (1989), Ekeledo and Sivakumar (1998),</td>
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<tr>
<td>business (e.g. multidimensional,</td>
<td>Klitgaard (1998), Chang and Rosenzweig (2001), Gaba et al. (2002),</td>
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<tr>
<td>simultaneous management)</td>
<td>Bartlett and Goshal (1987 and 2005), Kirby and Kaiser (2005), Rasheed</td>
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<tr>
<td>• choosing the appropriate entry strategy,</td>
<td>(2005), KPMG (2006), Buckley and Casson (2009), Meyer et al. (2009),</td>
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<tr>
<td>the form of FDI, the rate of equity and</td>
<td>Tekin-Koru (2009)</td>
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<tr>
<td>finding appropriate partners</td>
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<td>• timing of the FDI (when, how)</td>
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<td>• lack of planning an exit management in</td>
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<td>advance to avoid any surprises later and</td>
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<td>to reduce losses</td>
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<td>• insufficient efforts to devise strategies</td>
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<td>to combat corruption</td>
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<td>Problems of the investor (continued)</td>
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<tr>
<td>• financing the FDI</td>
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<td>• low performance of the FDI at the beginning</td>
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<td>• transaction costs (e.g. caused by more international linkages)</td>
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<td>• high costs for the SME for implementing the FDI because one has just one FDI project (lack of economies of scale)</td>
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<td>• lack of resources (e.g. finances, personnel, time)</td>
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<td>• timely and financial pressures</td>
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<td>• cross border tax planning</td>
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<td>• corruption increases the cost of operating the FDI</td>
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<td>• information gathering about the host country</td>
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<td>• transfer of knowledge and of information</td>
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<td>• identifying problems in advance</td>
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<tr>
<td>• lack of information and know-how can increase the risk of corruption</td>
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<tr>
<td>• distance to the home base</td>
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<tr>
<td>• managing the global network and the various relationships in the host country</td>
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<td>• managing the company’s organizational capabilities</td>
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<td>• sourcing and managing the value chain</td>
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<td>• quality issues</td>
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<td>• managing the marketing tools</td>
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<td>• conflict between the home and the host country</td>
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<td>• ignoring or oversimplifying possible problems</td>
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<tr>
<td>• cultural problems and cultural misunderstandings</td>
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<tr>
<td>• lack of cross cultural competence</td>
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<td>• language problems</td>
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<td>• international ethics (diverging values)</td>
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<td>• different law enforcement based on different cultures</td>
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<td>Problems of the investor (continued)</td>
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<tr>
<td>• keeping the control, sovereignty and autonomy of the FDI</td>
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<td>• risk management away from headquarters</td>
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<td>• managing the control of the FDI</td>
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<td>• managing the risk in new environments</td>
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<td>• short term orientation of the FDI can lead to corrupt actions</td>
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<tr>
<td>• verifying optimistic market forecasts and feasibility studies</td>
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<tr>
<td>• workforce in the home country resists against the FDI (e.g. they fear the loss of their workplace)</td>
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<td>• transfer of skilled personnel from the home country to the host country</td>
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<td>• project management of the FDI</td>
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<tr>
<td>• lack of cross cultural competence</td>
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<tr>
<td>• management of expatriates</td>
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<tr>
<td><strong>Size of the company:</strong></td>
<td>Penrose (1960), Klitgaard (1998), McGregor (2005),</td>
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<tr>
<td>• SMEs are more exposed to corruption because they lack the financial resources of bigger companies</td>
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<td>• their deals are too small to be visible</td>
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<tr>
<td>• SMEs have to deal with lower level governmental employees which are usually more corrupt</td>
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<td><strong>2. Problems in the host country</strong></td>
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<tr>
<td><strong>Infrastructure:</strong></td>
<td>Braun et al. (1983), Klitgaard (1998), Caslione and Thomas (2000), Cavusgil et al. (2002)</td>
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<tr>
<td>• lack of infrastructure in the host country</td>
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<tr>
<td>• access to raw materials and other supplies</td>
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<tr>
<td>• local capacities are constrained by costs, lack of know how or poor strategies to combat corruption</td>
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<td><strong>HR issues:</strong></td>
<td>Braun et al. (1983), Berger and Uhlmann (1985), Poole-Robb and Bailey (2002), Bishop and Hydolski (2009), Clissold (2010)</td>
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<tr>
<td>• lack of skilled personnel</td>
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<tr>
<td>• wages and labour regulations in the host country (e.g. minimum wages, social benefits, trade unions)</td>
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<tr>
<td>• finding non corrupt personnel</td>
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<td>• high turnover of personnel</td>
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<tr>
<td>Problems in the host country (continued)</td>
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<tr>
<td>- environmental regulations</td>
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<tr>
<td>- strict regulations regarding the production processes (e.g. the investor has to invest in the latest technologies instead of importing his old machinery)</td>
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<tr>
<td>- repatriation of profits</td>
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<td>- local content regulations</td>
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<td>- taxation</td>
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<td>- long and expensive way to get permissions</td>
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<td>- risk of expropriation</td>
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<td>- protecting the property of the investor (security staff or paying bribes)</td>
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<td>- crime (e.g. organized crime, youth gangs, street crime)</td>
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<td>- lack of market information</td>
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<td>- lack of market transparency</td>
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<td>- distance to home market</td>
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<td>- already existing strong competitors</td>
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<td>- low profitability of the market</td>
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<td>- unfair competition</td>
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<td>- corruption</td>
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<td>- access to financial institutions, financing</td>
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<td>- red tape with local authorities</td>
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<td>- lack of bargaining power for SMEs in the host country</td>
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<td>- underestimating local competitors</td>
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<tr>
<td>- getting involved in crime, corruption, bribery, extortion and theft of assets</td>
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<tr>
<td>- extortion and crime caused by youth gangs</td>
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<td>- problems in the politics and in the society of the host country</td>
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<td>- negative impact on the organizational culture of the investor and of the FDI</td>
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<tr>
<td>- corruption deters investors from undertaking the FDI</td>
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<td>- corruptive officials</td>
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</table>
2.4. Corruption and occupational fraud

Kulhavy (1989, p. 5) argues that the "centrifugal forces" caused by larger geographical and cultural distances from the home markets make managerial problems in FDIs more complex. Cultural ethics and increased levels of corruption are central challenges for investors (Grisham, 2010; Poole-Robb and Bailey, 2002). While on the one hand the awareness of international investors for corruption and occupational fraud has been raised, on the other hand the risk of corruptive activities has disproportionally increased within the last years (PriceWaterhouseCoopers, 2008 and 2009). Ryan (2000) found out that corruption is more prevalent in periods of rapid economic growth and change, as well as in periods of economic crises. Kroll (2010) states that the threats of corruption and occupational fraud are growing faster when economic conditions decrease, global competition becomes harder and therefore companies are under constant higher pressure to compete; this is the fact for many companies today. Therefore, corruption is one of the most significant current problems facing societies (Cleveland et al., 2009). Perpetrators make a good living out of such criminal activities and "there is little chance that they change their attitude and will give up a steadily growing wealth" (Poole-Robb and Bailey, 2002, p.4).

Figure 2: How corruption is eating up positive effects for FDIs

![Diagram of corruption and positive effects for FDIs]

Positive effects for the investor: e.g. higher return on investment, OLI advantages, growth, risk reduction
Positive effects for the host country: e.g. tax revenues, economic growth, social issues, knowledge transfer
Locational advantages of the host country: e.g. market size, lower production costs

Source: by the author
2.4.1. Definition of corruption

Corruption is not a new social phenomenon. Bribery as one form of corruption has already existed 2,400 B.C. when Urukagina, king of Lagash made a treaty with his god Ningirsu (Noonan, 1984) and corruption was already considered a sin against God in the Old Testament (Sackmann and Horstmann, 2010). According to Miller et al. (2005, p. XV) corruption is "a species of moral wrongdoing or of unethical behaviour, which is not necessarily an unlawful activity". The same corrupt elements which can be found in today's modern transition economies have been existent in nineteenth century America (Glaeser and Goldin, 2004, p. 1). Nye (1967, p. 419) defines corruption as "a behaviour which deviates from the formal duties of a public role because of private-regarding (personal, close family, private clique) pecuniary or status gains; or violates rules against the exercise of certain types of private-regarding influence. This includes such behaviour as bribery (use of a reward to pervert the judgement of a person in a position of trust); nepotism (bestowal of patronage by reason of ascriptive relationship rather than merit); and misappropriation (illegal appropriation of public resources for private-regarding uses)".

While Shleifer and Vishny (1993, p. 599) focus on the governmental area and define "corruption as the sale by government officials of government property for personal gain", Ocampo (2000, p.53) describes corruption in a broader way as a "phenomenon licensed, eventually promoted, and stimulated by other normative systems of formal and informal, public and private, domestic and international rules that coexist with prohibitive laws." Lange (2008, p.710) describes organizational corruption as "the pursuit of individual interests by one or more organizational actors through the intentional misdirection of organizational resources or perversion of organizational routines." According to Luo (2004) corruption includes the six following natures (1) perceptual, (2) contextual, (3) power related, (4) illegal or norm-deviated, (5) intentional and (6) almost always covert.
Based on the fact, that corruption is embedded into the culture, where it occurs, it is difficult to find a "worldwide" valid definition of corruption (Fisman and Miguel, 2008). The fieldwork will take place in El Salvador; however, the researcher grew up in Germany and some of the interviewees grew up in Germany, while others have been El Salvadorian natives. As a result, the perception of corruption may differ. For the purpose of this research, the definition and perception from the view of the researcher will be applied; therefore this thesis will take a German approach to corruption.

2.4.2. Definition of fraud

Unfortunately, fraud lacks a clear definition and is not a crime in itself but an integral aspect of several criminal statutes like computer fraud or bank fraud; the definition of fraud may change over time and based on the environment in which it appears (Podgor, 1999). “Fraud encompasses an array of irregularities and illegal acts characterized by intentional deception. It can be perpetrated for the benefit of or the detriment of the organization and by persons outside as well as inside the organization” (O'Gara, 2004, p.1). Wells (2007, p.1) defines occupational fraud as “The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets”. The “illicit action is performed without the participation or the knowledge of the affected part” (Del Castillo and Ampudia, 2005, p.4). “Fraudsters use their influence in business transactions in a way that violates their duty to their employers in order to obtain a benefit for themselves or someone else” (ACFE, 2008, p.10).

2.4.3. Difficulties in research on corruption and occupational fraud

Donaldson and Dunfee (1994, pp. 252-253) state that “on the one hand, research deals with empirical ideas and concepts which describe the facts of corruption (empirical business research) and on the other hand, research consists of normative ideas what managers should do (normative business research)”. However, the connection between these two directions is weak,
sometimes resulting in theoretical norms which are not applicable for business life. Collins et al. (2009) and Lambsdorff (2003) summarize that corruption is (1) difficult to define, (2) difficult to observe, (3) difficult to measure and (4) difficult to generalize. Sometimes, organizations apply double standards when they deal with corruption e.g. in the form of "grease payments" (TRACE, 2009). Measuring corruption is a difficult task, because victimization surveys are not available for the case of corruption (Glaeser and Goldin, 2004) and the research of corruption lacks "a global forensic economics network" to coordinate the work of researchers worldwide for a better understanding of corruption (Fisman and Miguel, 2008, p. 213). Bardhan (1997, p.1320) adds that through the "inherent difficulties of collecting good empirical data on the subject of corruption", the research of it has to be primarily analytical and speculative. Major management fraud against the organization is significantly underreported and managers do not prosecute it effectively, because they do not want to get involved and so, they evade the possible risk of being prosecuted themselves (O'Gara, 2004; Hess and Ford, 2008). An in depth-understanding of corruption is necessary for a successful research of corruption; corruption has to be analyzed not superficially (e.g. by describing its symptoms) "but from a systemic perspective which has to be integrative, interactionist and processual" (Ashforth et al., 2008, pp. 672). To do so, one has to understand, that corruption is always embedded in the culture of a country. One has to take that country-specific culture into consideration, which makes it difficult to compare different levels and different forms of corruption between countries (Fisman and Miguel, 2008).

2.4.4. Forms of corruption

Kautiliya describes in the fourth century BC "with remarkable precision" in his book Arthasastra that there exist "forty ways of embezzlement" in India (Bardhan, 1997, p. 1320). According to the (ACFE, 2008) the primary categories of corporate corruption are asset misappropriation, corruption and financial statement fraud. Wells (2007, pp.1 and 45-46) lists in the "Fraud Tree" these three common forms of occupational fraud, corruption and abuse.
O’Gara (2004, p. 2) describes the types of fraud as (1) internal fraud against the organization e.g. corruption (2) fraud for the organization e.g. bribery and (3) external fraud against the organization e.g. credit card fraud. Burke (2011) adds insider trading and the padding of one’s expenses as additional examples of corporate wrongdoing and Kroll (2010) states that theft of information and electronic data has overtaken physical theft for the first time as the most frequently reported fraud. Rosenblatt and Shapira-Lishchinsky (2011, p. 189) see the withdrawal syndrome of employees as another form of corruption since employees contribute sub-optimally while they are still on the payroll of an organization. Child (2007) explains that employees behave corruptly, when they steal time to pursue private interests and misuse the company’s equipment for private purposes.

Corruption in foreign markets is mostly assumed with bribery. In doing so, the international press neglects other forms of corruption, which make the marketing efforts of companies more difficult like (1) product piracy and stolen R&D data (2) terrorism and violence, and (3) black market activities (Chandler and Graham, 2010). Bishop and Hydolski (2009) warn that management override i.e. the risk of overriding controls by management to perpetrate fraud as an additional risk of employee corruption is still underestimated in organizations.
Especially SMEs in emerging countries have to deal with the following forms of corruption (UNIDO and UNODC, 2007):

- Bribery
- Embezzlement and misappropriation of funds
- Extortion e.g. from larger companies in order to obtain contracts
- Fraud
- Nepotism
- Bureaucratic or administrative corruption
- The sale of rights granted by the government (e.g. permits, contracts)
- Corruption in combination with certain forms of organized crime

Kroll (2010, p. 20) lists, based on a survey undertaken in Latin America the following areas of frequent loss where companies in Latin America suffer from:

- Information theft, loss or attack (35% of the companies interviewed)
- Management conflict of interest (27%)
- Theft of physical assets or stock (26%)
- Vendor, supplier or procurement fraud (22%)
- Regulatory or compliance fraud (21%)

2.4.5. Parties involved in corruption

Ashforth et al. (2008, p.670) as well as UNIDO and UNODC (2006) and TI (2010) state that corruption afflicts for-profit, non-for-profit and governmental organizations, natural monopolies like mining and even religious organizations and can be committed by anyone in the organization. O'Gara (2004, p. 2) classifies fraud based on the type of perpetrator: (1) management (2) employee and (3) nonemployee. Occupational fraudsters are generally first-time offenders and occupational frauds were most often committed by the accounting department or upper management (ACFE, 2008). Kroll (2010, p.4) found out that fraud is largely an inside job across all geographies and industries (44% employees and 11% agents or intermediaries). The Council of Europe (1999) distinguishes between active involvement into corruption and fraud (i.e. the function does actively bribe) and passive involvement (i.e. the function receives bribes or is harmed by the corruptive act).
2.5. Factors fostering corruption and occupational fraud in emerging markets

2.5.1. Culture, society and past heritage

Some societal factors like (1) power distance, (2) uncertainty avoidance (3) interpersonal trust and (4) a collectivistic culture are positively related with corruption (Getz and Volkema, 2001; Husted, 1999; Levin and Satarov, 2000). Swamy et al. (2001) and Dollar et al. (2001) add that a high level of masculinity can increase the level of corruption. Such factors influence people's perceptions of corruption and explain their higher tolerance towards corruption (Morris and Blake, 2009; Fisman and Miguel, 2008). Webster (2005) adds that companies in Latin America are more exposed to corruption than companies in OECD countries (28% vs. 12%) because corruption is a way of life in Latin America (Little and Posada-Carbó, 1996). Fisman and Miguel (2008) found out, that people with resentments against the investor's home country will easily justify their corrupt behaviours against the foreign investor.

Secrecy helps fostering corruption. Lambsdorff (2002) as well as McGregor (2005) state that corrupt forms of hidden network ties like the Chinese “guanxi” facilitate the sealing of corrupt deals. Levin and Satarov (2000) conclude that existing corruption can foster additional corruption, because the attractiveness of grassroots corruption is explained and justified by mutual gain and minimal risk for those involved in bribes. A predominant religion in a country can influence the level of corruption. Traditional, hierarchical religions like Islam, Orthodox or Catholicism foster corruption, while predominantly Protestant cultures show a lower degree of corruption (Treisman, 2000; Hofstede, 2001).

Mauro (1995) and Tanzi (1998) state, that corruption is inherently affected by ethnic diversity and ethnolinguistic fractionalization. However, Leite and Weidmann (1999) contrast their view and found out that ethnic diversity is not correlated with higher levels of corruption. In developing countries, new emerging middle-class groups have built up a structural pressure against already existing corruption (Khan, 1998). Paradoxically, this generates additional corruption because these groups use corruption as a tool to enforce their interests (ibid).
To a large extent, today’s corruption in emerging market countries is inherited from their collectivist past, which is responsible for today’s relatively poor governance and absence of the so-called “good civil society”, leading to additional corruption (Colombatto, 2003, p.373). The heritage of a totalitarian regime or centralized socialist governments combined with just a short exposure to democratic traditions lead to political instability and weakness of the judiciary, resulting in higher levels of corruption (Levin and Satarov, 2000; Treisman, 2000; Svensson, 2005). Fisman and Miguel (2008) see frequently upcoming civil wars after the end of these totalitarian regimes as an additional source for corruption, because they destroy unity and finally weaken society and government institutions. The weakness of such governments allows governmental agencies to impose bribes and therefore, corruption arises to correct pre-existing government failures like weak institutions, political instability, underdeveloped legislature and legal loopholes, misguided government policies or red tape (Aidt, 2003; Shleifer and Vishny, 1993; Levin and Satarov, 2000). Cruz (2011) adds, that unfortunately, the “mano dura” policies (strong hand; zero tolerance of the government towards crime and corruption) in some of the newly established democratic governments in Latin America implemented to fight against crime gave state institutions a high degree of discretionary power resulting in an adverse effect, “opening the gates wide for abuses and extralegal violence” (ibid, p. 26) and allowing them to behave corrupt. Unfortunately, “mano dura” has not significantly reduced the level of criminal violence in these countries (Cruz, 2011).

Countries undergoing a massive dislocation in the form of politic, economic, and social changes are very vulnerable to corruption (Sanyal, 2005). In such countries, corruption is assumed as a fact and therefore predictable, which causes further corruption based on the fact that investors are less motivated to seek for alternatives (Lambsdorff, 2002). The freedom of the press is not yet well protected, which leads to increased corruption because the press is still too weak to discover and accuse corruption openly (Treisman, 2000). Montinola and Jackman (2002) describe an inverse- U-shaped curve for the development between corruption and the progress of democratization: corruption is low in dictatorships, increases with democratization and then decreases again with a
higher level of democracy. This process view is supported by Treisman (2000) who states that long exposure to democracy predicts lower levels of corruption. Cruz (2011) adds, that a transition from authoritarian regime to neoliberal, democratic governance can also foster the growth of criminal violence in the form of organized crime, youth gangs, street crime and a high rate of homicides, because newly established democratic governments have to regain power for security and justice institutions and to stop the survival of violent entrepreneurs and “other illegal groups and rogue agents” (ibid, p. 9).

The legacy of colonial rule is a significant factor in explaining higher levels of corruption. Former British colonies tend to have lower levels of corruption than francophone colonies (Robinson, 1998). Treisman (2000) argues that former British colonies have higher quality governments based on their Protestant traditions and the Common Law tradition stemming from England. Such “an increase in governmental quality in general is correlated with lower rates of corruption” (ibid, p.402).

As a result, the level of corruption in El Salvador is considerably higher than in other countries influenced by the following factors (1) a collectivistic culture influenced by the Spanish “Conquistadora” i.e. Spanish colonization of the Americas (2) a high level of masculinity, (3) a weak government caused by the heritage of a totalitarian regime and (4) a relatively new established democracy.

2.5.2. Economic issues

The countries with the highest level of corruption are emerging or transition countries with low income levels (Svensson, 2005). TI (2008) and Spector (2005) report, that some sectors are more exposed to corruption like the justice system, political parties, health care, education, public finance, environment, energy and agriculture. Simmons & Simmons (2006) and Kroll (2010) add that infrastructure projects, transportation, construction, telecom and even the private sector can be negatively influenced by corruption. Especially capital intensive natural resources industries like the oil industry or mining are major determinants of corruption (Leite and Weidmann, 1999; The World Bank, 2000; Ades and Di Tella, 1999). This view is supported by Montinola and Jackman (2002), who found out, that a membership of the Oil Producing and Exporting
Countries (OPEC) goes along with a higher level of corruption. Unfortunately, “a lot of natural resource booms did never translate into generalized prosperity” (Fisman and Miguel, 2008, p. 156). O'Higgins (2006, p. 243) explains the interaction between extractive resource dependency, corruption and low human development for countries rich of natural resources:

| Extractive resource dependency ↔ Corruption ↔ Low human development |

A low GNP per capita leads to higher levels of corruption (Hofstede, 2001). Unequal income distribution is surprisingly not related with corruption (Husted, 1999; Sanyal, 2005) but the lower the educational level, the higher the level of corruption is (Ali and Isse, 2003; Svensson, 2005). Periods of economic downturns can increase the level of corruption (Fisman and Miguel, 2008; Poole-Rob and Bailey, 2002). Corruption is also a matter of public wealth. Preventing all corruption is excessively costly, so for less developed economies it is better tolerating a certain level of corruption and not enforcing all property rights (Acemoglu and Verdier, 1998 and 2000). Corruption is more pervasive in low income-countries which tend to underpay public sector employees (Montinola and Jackman, 2002). Varese (1997) argues that in poor countries the lack of enforcing property rights and the nonexistent possibility to derive income from goods owned leads to higher levels of corruption.

Police states, small oligarchies and homogeneous societies found in East Asia and Latin America are more likely to suffer from corruption than more open, less tightly governed and heterogeneous societies (Shleifer and Vishny, 1993). In economic environments where domestic firms are sheltered from foreign competition by policy induced barriers, foreign investors are facing higher levels of corruption (Ades and Di Tella, 1999). Husted (1999) as well as Montinola and Jackman (2002) found out, that government size is not systematically related to corruption. More government does not necessarily lead to a higher level of corruption because corruption exists within certain limited sectors which are independent of the size of that specific government agency (Husted, 1999). However, Ali and Isse (2003) object, that the size of government is positively and significantly correlated with the level of corruption: a 10% increase in government employees leads to 2% more corruption.
There exists a contrasting view of the relationship between corruption and economic liberalisation. Liberalization and privatization generate higher levels of corruption (Robinson, 1998; Levin and Satarov, 2000). Kaufmann and Siegelbaum (1996) object that privatization programmes can help to decrease corruption, when properly implemented with high speed and a high level of transparency and access to information. However, they also argue, that management-employee buyouts and spontaneous privatizations can lead to higher corruption based on a lack of transparency and high levels of discretionary power of the governmental agencies. According to Kroll (2010) and Svensson (2005), the rate of corruption in emerging markets is higher because the quality of secondary information is often inaccurate or nonexistent, and there exist robust relationships and shared information between customers, suppliers and local officials which nourish corruptive relationships.

Although El Salvador is described as being the Central American Tiger in economic growth (Hidalgo, 2009), the country still grades poor with respect to the level of GNP and its GINI Coefficient, which results in a higher level of corruption.

2.5.3. Geographic issues of the host country

The geographic location of a country can also influence the level of corruption. The closer a country is located to the equator, the higher the level of corruption is. La Porta (1999) explains this phenomenon with a higher rate of mortality in such countries caused by tropical diseases. This leads to a short term orientation of the people in general and of their economic activities in specific, which goes along with higher levels of corruption. Extreme poverty and violence in some countries, frequently accompanied by drug production and drug trafficking to neighbouring countries increase the level of corruption and vice versa (Shleifer and Vishny, 1993; Carpenter, 2005; The World Bank, 2011). Sandholtz and Gray (2003) found out, that countries which are surrounded by corruptive neighbours experience a higher level of corruption because corruption can spill over. Countries which have a larger distance to the world’s major trading centres suffer from a higher level of corruption because they are protected from non-corrupt competitors (Lambsdorff, 2006). And finally, the
"paradox of corruption" points out, that corruption "is universally disapproved yet universally prevalent" and that firms from countries with minimal domestic corruption play a major role as bribe-payers in corrupt environments caused by "exported corruption" (Hess and Dunfee, 2000, p.595 and p.598). Thus, increasing FDI inflows can worsen national corruption (Pinto and Zhu, 2008).

El Salvador is located in the above discussed tropical area close to the equator and the country is surrounded by a lot of corrupt countries. In addition, the country operates as a highway for drug dealers, transporting drugs from South America via El Salvador and Mexico to the USA. As a result, investors have to deal with higher rates of corruption in this country.

2.5.4. Factors fostering corruption within organizations
According to Ryan (2000, p. 332), "corruption has existed as long as there have been people in power and money to influence them". Based on increased globalization, managers are more exposed to unfamiliar business environments influenced by political, religious, cultural, and economic factors as well as bribery, fraud, violence or organized crime and managers are well aware that corruption can hinder their overseas activities (Chandler and Graham, 2010).

Ashforth et al. (2008, pp. 672), Kish-Gephardt et al. (2010) and Burke (2009, p.3) built up taxonomies, why people in organizations behave unethically. Their findings can be synthesized as follows:

- **bad apples**: corruption is committed by individuals; however individual's behaviour are influenced by group, organizational, and wider contextual forces and sometimes individuals bring groups within organizations to commit fraud "like one rotten apple can ruin the whole basket" (Bielgelman and Bartow, 2012, p. 38)

- **bad barrels**: if norms and practices within organizations serve the competitive interests of a country for profits at any costs, this may omit the interests of other stakeholders (e.g. larger societies)

- **bad cases**: no system can live without faith, which is undermined by corruption
• bad orchards: a whole industry participates in a shady way of operating (like the financial services industry in the 1990s and 2000s)

• corruption over time: the long history of corruption in business (dating back 1500 years, already mentioned in the Talmud) suggests that it is naive to think that self-regulation of the problem can work.

Biegelman and Bartow (2012, pp. 37) describe with their “Potato Chip Theory” that committing fraud can become addictive and as soon as the fraudster has once been successful with his wrongdoing, it gets harder and harder for him to stop that activity like people not being able to eat just one potato chip. The quality of information and the manipulation, concealing or simply suppressing of information received by the principal can help growing and concealing corruption (Tirole, 1986). According to the Corporate Crime Reporter (2007), corporate crime is under-prosecuted and corporate crime prosecutors are underfunded. As a result, many corporate criminals do not have to worry about prosecution. If corrupt individuals are left unchecked, corruption and fraud can “spread to other individuals, magnify in scope and finally become embedded in the very culture or an organization and industry” (Ashforth et al., 2008, p. 671).

Collins et al. (2009) found out that executives, which have close social ties with government officials, or rationalize the practice of corruption as a normal part of doing business are more engaged in corruption whereas top managers who belong to professional industry networks are less likely to engage in corruption. Biegelman and Bartow (2012, p. 5) add, that a culture of noncompliance combined with a lack of accountability and transparency will encourage rogue employees to commit fraud. Del Castillo and Ampudia (2005) have done a survey among 1376 Mexican SMEs and list the following four factors which foster corruption in companies: (1) lack of internal control (43%), (2) administrative and organizational failures (28%), (3) human failure (19%) and finally (4) organizational culture (8%).
2.5.5. Motivations for companies and people to behave in a corrupt way

There exists a wide variety of common rationalizations, why people and organizations undertake and justify their corrupt behaviours (Noonan, 1984, pp. 685-693; Hess and Dunfee, 2000; Ashforth et al., 2008; Miller et al., 2005; UNIDO and UNODC, 2006; Kaufmann and Wei, 1999; Batabyal and Yoo, 2007), which are summarized as follows:

- **money:** personal greed, envy, avoiding taxes and duties
- **pressure:** bribes are necessary to obtain desperately needed business or services, people are in desperate financial trouble
- **justifications** like “everybody does it”, “I had no alternative” or it is enforced or tolerated by the company or third parties
- **short term orientation:** viewing short term profit of paying bribes to facilitate issues as more important than long term bad effects
- **disguising** bribes and corruptive actions: e.g. euphemistic labelling (facilitating payments instead of bribes) or circumventing the way of payments (e.g. indirect bribes paid over agents)
- **failing to conduct due diligence**

Biegelman and Bartow (2012) describe a common way, how CEO’s defend themselves, why they have not done enough to detect and to fight against corruption and occupational fraud. They (ibid, p. 8-9) state that CEO’s defend their wrongdoing with strategies like “I’m just the CEO, What Do I Know about What’s Going on?” and describe this as the “Chutzpah Defence” (Chutzpah is a “Yiddish term meaning unbelievable gall, audacity, arrogance, or utter nerve”, ibid, p.8). Some people just have problems in distinguishing between unlawful and lawful actions because they lack the information (UNIDO and UNODC, 2007). Other offenders think that they would do the right thing for society or for their company and assume that this would be a win-win situation for the briber as well as for the bribe taker because no one is injured by their conduct (Miller et al., 2005; Noonan, 1984).
Corruption can be the result of a cost-benefit analysis. When the cost to eliminate corruption is higher than the benefits from its eradication, companies will tolerate bribing (Colombatto, 2003). Fisman and Miguel (2008) describe, that in the oil-drilling industry, it can be more favourable for the investor to bribe politicians instead of investing in cutting-edge technology to get new drilling concessions. However, according to Benfoddová et al. (2000), the majority of entrepreneurs do not want to engage in corrupt practice, because they find it costly, inefficient and risky. They behave in a corrupt way, because they lack public support in avoiding corruption and they cannot undertake normal business transactions without paying bribes (Sanyal, 2005; Ruhl, 2011). In addition, they do not follow internal or external anti fraud legislations, because “these legislations are apparently rarely controlled or enforced” (Hess and Dunfee, 2000; ACFE, 2008, p. 5).

Lee et al. (2010) present reasons, why some companies are more exposed to corruption based on the ownership of a company and the quality of corruption:

- The higher the foreign ownership of a firm and the more export oriented the firm is, the lower the vulnerability to corruption is (the companies have more resources and thus less need for government assistance and they can just walk away)
- The higher the share of state ownership of the firm is, the lower is its vulnerability to corruption
- The more pervasive corruption is (i.e. incidence of corruption for the firm), the greater the firm’s exposure to corruption is
- The more arbitrary corruption is (i.e. “rewards” for paying bribes are predictable) the smaller the bribes are paid by the firm
According to Roaf (2000), corruption results from a combination of opportunities (i.e. the lack of control) and incentives (e.g. increasing personal gain). Albrecht et al. (2011, p.168) and Wells (2007, p. 7) describe with “The Fraud Triangle” which has originally developed by Donald R. Cressey in the 1940’s three factors which enable individuals to commit fraud: (1) perceived pressure, (2) perceived opportunities and (3) rationalization of the fraudster.

Figure 4: The Fraud Triangle

“The Fraud Triangle” developed by Donald R. Cressey in the 1940s:

<table>
<thead>
<tr>
<th>Opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Fraud Triangle</td>
</tr>
<tr>
<td>Pressure</td>
</tr>
<tr>
<td>Rationalization</td>
</tr>
</tbody>
</table>

Source: Wells (2007, p. 7)

Biegelman and Bartow (2012, p.36) have expanded the Fraud Triangle into a “Fraud Diamond” by adding a fourth element of “capability” into the model. They state, that a fraudster also needs to possess the capability to actually carry out the fraud (e.g. being creative enough to do so).

Albrecht et al. (1984, p. 6) explain in their “Fraud Scale Model”, that high situational pressure (e.g. unrealistic expectations), good opportunities (e.g. low level of control) and a low integrity of the employee (caused by tensions between the interest of the principal and interest of the employee) will increase the level of corruption and occupational fraud in a company. Biegelman and
Bartow (2012) state, that greed caused through financial pressure is a very usual motive, but sometimes revenge and ego can be a justification for occupational fraud, for example, when employees feel anger and hostility against their employers.

Klitgaard (1998, p. 4) presents corruption in a formula \( C = M + D - A \)
“Corruption equals monopoly plus discretion minus accountability.”

Biegelman and Bartow (2012, p. 144) have developed the “PAC Formula” and state, that power without accountability breeds corruption \( P - A = C \).

Hess and Dunfee (2000, pp. 608) explain, that corrupt behaviour can be ethically justified by foreign investors, because they want to respect the local culture and want to avoid “moral imperialism” on the host country and therefore, they have chosen bribing as a sensible business strategy to stay competitive in the host market. Over the time, single undetected corrupt actions in organizations will be embedded in organizational practices, employees will be asked to behave unethically on behalf of the organization and newcomers will be socialized in existing structures with corrupt practices (Guerber et al., 2011; Ashforth et al., 2008). More and more rogue employees will act contrary to the announced policies of their employers and sometimes, personal threats, physical harm or extortion by other employees or third parties will increase the level of corruption (Hess and Dunfee, 2000). Finally, the whole organization will suffer from a corrupt culture, which fosters the growth of additional corruption (VDMA, 2010; Miller et al., 2005).

2.5.6. Reasons why SMEs are more exposed to corruption

Most of the anti-corruption programs focus on the public sector or on large-scale enterprise but not on SMEs, which make up about 90% of all established business worldwide (Benfoddová et al., 2000; UNIDO and UNODC, 2006). However, “SMEs have characteristics, structures, and potentials, that distinguish them from larger companies” and make them more vulnerable to corruption (UNIDO and UNODC, 2006, p. III). Webster (2005) underpins, that SMEs are more exposed to corruption than larger companies (40 % vs. 31 %).
Compliance with regulations and red tape creates delays which in turn create financial costs for companies. In general, SMEs have fewer resources on time, finance, technology and personnel compared to larger companies and compliance costs are disproportionately high for SMEs (TI, 2008; UNIDO and UNODC, 2007). As a result, SMEs try to speed up processes and bureaucracy with grease money and need to maximize their profit to survive among bigger competitors with corrupt activities (UNIDO and UNODC, 2007). Tanzi (1998, p. 28) states that large enterprises can defend themselves better against corruption than SMEs, because they have specialized departments and "facilitators" which help them to manage the regulations and their size makes them more immune to extortion. UNIDO and UNODC (2006) found out that informal structures in SMEs and a short term vision of their business can lead to higher levels of corruption. Especially smaller companies are in desperate need for business and may bribe to survive, to increase their bargaining power, to compensate weak networks with officials and customers and to establish themselves in new markets (Sanyal, 2005; UNIDO and UNODC, 2006; Lu and Beamish, 2001). This pressure currently increases, because business is on a slow and fragile recovery and companies fear financial difficulties in the next few years (Ernst & Young, 2011).

Grey areas of corruption are more difficult to define for SMEs. They do not know the borderline between legal practices and corruption due to their lack of international knowledge and a lower level of cultural experience (Grisham, 2010; UNIDO and UNODC, 2006; TI, 2008). If inexperienced managers of SMEs perceive their environment as wholly corrupt, their likelihood of becoming involved in corruption is high (UNIDO and UNODC, 2007). In addition, SMEs have a lower degree of influence to oppose requests from officials and therefore, officials feel less resistance among SMEs when requesting for bribes (UNIDO and UNODC, 2007).

While the ACFE (2008) states that SMEs are especially vulnerable to occupational fraud because they have fewer or weaker controls in place than their larger counterparts, Colombatto (2003) and Kroll (2010, p.20) argue, that the level of corruption is lower in SMEs because "opportunistic behaviour is
easier to detect, sanctions tend to be rather effective” and a lower staff turnover in smaller companies and less IT technology decreases the exposure to corruption and occupational fraud.

In summary, SMEs in general have to deal with higher rates of corruption. This makes an investment into El Salvador, which adds country based corruption to company specific corruption more risky with respect to corruption and occupational fraud.

2.6. Effects of corruption

2.6.1. Negative effects of corruption for economies

According to UNIDO and UNODC (2007), the cost of corruption is 3% of the World GDP (Gross Domestic Product) and corporate crime inflicts far more damage on society than all street crime combined (Corporate Crime Reporter, 2007). In El Salvador, the costs for corruption, crime and violence are considerably higher and add up to almost 11 % of the GDP (The World Bank, 2011). Corruption works like an inefficient tax on transactions (Gyimah-Brempong and Munoz de Camacho, 2006). However, “the illegality of corruption and the need for secrecy make corruption more costly than its sister activity, taxation” (Shleifer and Vishny, 1993, p.2) and corruption can misallocate public funds and shift a country’s investments away from high value projects into potentially useless projects which offer better opportunities for corruption (ibid). In addition, corrupt practices are not legally enforceable and thus increase transaction costs (Gyimah-Brempong and Munoz de Camacho, 2006).

Corruption can discourage the development of economic activities, can lead to lower profitability of investments and weakens the economical and political advantages of the host country (Jordan Smith, 2007; Fisman and Miguel, 2008; Mauro, 1995; Shleifer and Vishny, 1993). Corruption lowers investment in the host countries because it influences the FDI decisions of potential investors negatively (Mauro, 1995; Wei, 2000). Investors are deterred because corruption produces bottlenecks, increases uncertainty and raises costs (Habib and Zurawicki, 2002; Wei, 2000). Therefore, the positive effect of corruption i.e.
greasing the wheels of commerce and overcoming inefficiencies in the
government is outweighed by its negative effects (Murphy et al., 1993;
Kaufmann and Wei, 1999; Aidis and Mickiewicz, 2006). However, Egger and
Winner (2006) found out, that corruption has a lower impact on FDIs
specializing into vertical integration of production than on horizontal integration,
because the level of corruption does not so strongly outweigh the locational
advantages like low production costs for the vertical integration processes.

Gray and Kaufmann (1998, p.8) explain that corruption is unfair, because “it
distorts sectoral priorities and technology choices” (e.g. it creates incentives to
crime for large defence projects rather than rural health clinics) and it
“undercuts the state’s ability to raise revenues leading to higher tax rates being
levied on fewer and fewer taxpayers”. Corruption in emerging economies
contributes to poverty and destroys freedom and finally can result in the loss of
credibility of the host state because foreign investors have no confidence that
the legal system can protect their property and contract rights (Cleveland et al.,

Corruption leads to inefficient economic, social, and political outcomes, because
“it [...] retards long-term foreign and domestic investments, enhances inflation,
depreciates national currency, reduces expenditures for educational and health,
increases military expenditures, [...] pushes firms underground, distorts
markets and the allocation of resources, increases income inequality and
poverty, reduces tax revenue, increases child and infant mortality rates, distorts
the fundamental role of the government [...] and undermines the legitimacy of
government and of the market economy” (Akçay, 2006, pp. 29-30). Especially in
emerging market countries, corruption can have a large averse distributional
effect on income, which negatively affects the GINI coefficient (Khamfula, 2007,
Getz and Volkema, 2001). Murphy et al. (1993) as well as Gyimah-Brempong
and Munoz de Comacho (2006) argue that corruption has the largest
distributional impact in Latin America. This can lead to a vicious circle, since
higher economic adversity in a country leads to more corruption and vice versa
(Getz and Volkema, 2001). Biegelman and Bartow (2012, p.331) close, that
corruption often occurs in the worst possible locales “like developing and
emerging countries and regions that suffer the most from corruption’s evil
consequences" and that "corruption fuels poverty, hunger, disease, illiteracy, contempt, and disillusion." Corruption channels human resources into rent seeking rather than in productive activities; talented people become rent seekers which hinders economic growth and afflicts innovative activity because private rent seekers go after existing stock of wealth which otherwise could be used for economic growth (Shleifer and Vishny, 1993; Murphy et al., 1993). "Corruption breeds corruption and the longer it persists, the more endemic it becomes and the more people are involved in it" (Ali and Isse, 2003, p.451). Mauro (1995) states, that corruption will have a negative effect on FDIs and the greater the absolute difference in the corruption levels between the home country and the host countries is, the lesser the FDI inflow for the host country will be (Habib and Zurawicki, 2002). However, corruption has a smaller negative impact on FDIs in transition countries than in other countries because investors are more capable in handling corruption (Cuervo-Cazurra, 2006).

Corruption does limit the availability of both consumer and producer goods in the country because the import is determined by corruption opportunities rather than tastes or technological needs and therefore, it raises the cost of goods and services (Shleifer and Vishny, 1993; Hindess, 2005). In addition, corruption distorts fair competition and the rules of a free market economy and finally has a negative impact on the quality and availability of public services and the public infrastructure (UNIDO and UNODC, 2007; Tanzi and Davoodi, 1997). Kaufmann (1997, p.118) adds that "viewing bribes as a mechanism for equalizing supply and demand also messes the fact that many public goods ought not to be allocated to the highest bidder". On the one hand, Tanzi and Davoodi (1997) argue, that corruption can lead to higher public investments; on the other hand, the expenditures for highly visible investment projects (e.g. roads, airports or power plants) may come at the cost of smaller expenditures for less attractive but also essential projects (e.g. schools) and insufficient expenditures on operations and maintenance.

Corruption has a negative effect on governmental capacity, because it wastes resources (e.g. capital, investment distortions and human skills) which then lead to poorer infrastructure and a loss of legitimacy and even threatens a government's overall effectiveness (Nye, 1967; Hess and Dunfee, 2000;
Clissold, 2010). Hindess (2005) argues that corruption reduces productivity, contaminates the environment of the private sector and damages public respect. Corruption does not only affect the absolute size of government expenditures but also the composition of the expenditures; especially social spending for education and health, which is essential for developing countries, is adversely affected by corruption and hinders the formation of human capital (Mauro, 1998; Gupta et al., 1998).

And finally, corruption is a necessary facilitator for extensive organized crime and terrorist networks, can lead to instability in the country (social revolutions, military takeovers and upsetting ethnic balances) and even can harm international security e.g. “if visas can be bought, borders won't be safe” (TRACE, 2009, p. 6; Orttung, 2006; Nye, 1967).

2.6.2. Positive effects of corruption for economies

While Krevert (2007) argues, that corruption can impede economic growth and can hurt foreign corporations because they have to pay bribes, Svensson (2005) found out, that corruption does not affect economic growth.

Nye (1967) discusses positive effects of corruption which can have an impact on growth and development of economies:

- Corruption can help to promote economic development (it is a source for capital formation, it can cut red tape and it can foster entrepreneurship)

- Corruption can foster a national integration (it can help integrating elites and non-elites into society)

- Corruption can help to increase governmental capacity by empowering governments

The prevention of corruption is excessively costly since one needs additional bureaucrats and one has to pay higher government salaries to compensate for lost bribes and so, the second best and less expensive approach is to tolerate a certain amount of corruption (Acemoglu and Verdier, 1998 and 2000).
Aidt (2003) argues that corruption can help foreign companies to operate in unknown environments in a more efficient way because it circumvents already existing competition, speeds up bureaucratic procedures and introduces competition for scarce government resources which then will be provided more efficiently. This view is supported by Ali and Isse (2003, p. 450) who state that corruption may be beneficial because it "circumvents inefficient and cumbersome government regulations" and finally can lead to less corruption. While "in most stable nations, the negative effects of corruption outweigh the positive by 50- to 100 fold", corruption can have much larger positive effects in nations with weak governance because many corrupt activities substitute for missing or misguided law (Houston, 2007, p. 326). Colombatto (2003) argues that corruption in developing countries can be seen as a mechanism for market participants to circumvent inefficient structures, thus being able to operate in a more competitive way.

However, Kaufmann (1997, p. 118) refutes the view that corruption can equalize supply and demand of public goods and that "speed money" can cut red tape. Kaufmann (ibid) argues that "this view misses the fact that many public goods should not be allocated to the highest bidder". He also displays, that managers who pay more "grease money" spend more, not less time with public officials. This view is supported by Doh et al. (2003) who state that companies suffer from monetary and opportunity costs of dealing with corrupt officials.

2.6.3. Negative effects of corruption for companies

Lambsdorff (2002) explains that corruption decreases the profitability of companies. Organizations lose between 5% and 7% of their annual revenues to corruption and fraud and the median loss caused by occupational fraud is $175,000; more than 25% of the companies reported losses of at least USD one million (ACFE, 2008; Security Leaders, 2012). The relative costs of corruption for SMEs are even higher – up to 10% of the annual revenues, because the expenses for regulatory compliance do not decrease in proportion of firm size and affect SMEs disproportionately (UNIDO and UNODC, 2006).
According to Simmons & Simmons (2006), 43% of all companies worldwide think that they have lost new business in the last five years to competitors, which paid a bribe. Unfortunately, bribe takers will focus their demands on companies that have already paid bribes and will try to increase their demands over time, which will increase the investor's operating costs in the long run (TRACE, 2009). During economic downturns, the companies mostly affected have been companies which depended on corrupt arrangements rather than open competition (Luo, 2002).

Tekin-Koru (2006) found out that corruption has a strong negative impact on joint ventures, particularly ones originating from developed countries, thus supporting the transaction cost approach which emphasizes an expected increase in costs for sharing ownership in corrupt environments. This view is supported by Gyimah-Brempong and Munoz de Comacho (2006), who add, that corrupt practices are conducted in secrecy and contracts emanating from them are not legally enforceable, resulting in higher transaction costs and financial loss. According to Luo (2004), corruption influences organizations in their development negatively because it is an evolutionary hazard and it can lead to organizational deficiencies which finally result in competitive disadvantages for the companies. Corruption can lower the productivity of capital since capital goods will be misallocated towards inefficient and overpriced competitors and therefore the quality of investments will suffer (Lambsdorff, 2003; Krevert, 2007).

Corruption is an entrance barrier for potential investors into emerging economies, because lobbying power, which is accompanied by bribes is disproportionately held by those enterprises that need to be replaced by new or foreign firms and thus hinders the building up of new, competitive companies (Varese, 1997). In a survey undertaken by Gaviria (2002, p. 257), investors have seen corruption as a main obstacle for doing business; El Salvador scores very poorly with respect to the level of corruption (position 6 of 20 Latin American FDI destinations with the highest level of corruption) and has just slightly improved since then (TI, 2008).
PriceWaterhouseCoopers (2008) argues that besides economic losses, corruption has negative ethical outcomes for companies because it negatively influences the reputation and credibility in the society and therefore, the company becomes less attractive to new recruits and may even attract corrupt employees, which leads to additional corruption. Corruption within the company undermines trust, can cause personal and professional harm and it allows employees as well as third parties to rationalize stealing from the company, thus demoralizing management and staff (PriceWaterhouseCoopers, 2008; Miller et al., 2005).

Doh et al. (2003, pp. 116) describe that the cost of government corruption harms investor in two ways:

- Direct costs (e.g. bribes, red tape and bureaucratic delay, directly unproductive behaviour, engagement with organized crime)
- Indirect costs (e.g. reduced investment, reduced and distorted public expenditures, weak infrastructure, weak legal institutions, misdirected entrepreneurial talent and socio-economic failure)

In addition, corruption causes opportunity costs like not undertaking a FDI and hidden costs like sinking staff loyalty, staff involvement in fraud and damaging reliable supply chain relationships (UNIDO and UNODC, 2007). Contrary to the "efficient grease hypothesis", which assumes that reducing red tape by paying grease money can help companies to become more efficient, Kaufmann and Wei (1999, p.1) found out, that bribes increase the time that companies have to spend with bureaucrats and that the bribe payer faces higher, not lower costs of capital.

The following figure explains the negative effects of corruption and fraud in the first step on the host country and in the second step on the level of FDIs in the host country. Initially, corruption hinders the economic strength of the host country. The economic growth and the purchasing power of consumers are lowered by corruption. Corruption negatively influences the government to operate in an efficient way and to provide an attractive framework for investors e.g. corruption fosters crime, leads to brain drain or unfavourable financing
conditions. As a result the prospective host country becomes less attractive for investors, because they have to cope with a poor infrastructure. Investors will face higher operating costs for their businesses, since they have to pay higher transaction costs and in some cases even higher taxes than expected. These costs eat up the formerly granted tax incentives offered by the host country or the lower costs for labour.

Figure 5: Negative effects of corruption and fraud on the host country and on the FDI

**Corruption and fraud**
- hinder GDP growth of the host country and purchasing power of consumers
- affect government expenditures (ineffective investment projects)
- lead to low performance of the economy and less tax revenues
- influences the investment climate negatively
- distort bidding processes for government bidding
- foster crime and weakens the legal foundations of the host country
- lead to brain drain and unfavourable financing conditions

**Host country**
- low attractiveness for the investor due to low growth rates (entrance barrier)
- poor infrastructure lead to increased production costs
- bureaucracy and inefficient public administration processes lead to high transaction costs and increased administration (higher operational costs)
- inferior education and high rate of sick days lead to low productivity
- less economic freedom (e.g. licensing restrictions) hinder sales growth
- low legal, economic and social stability lead to increased investment risks (e.g. low protection of property rights)
- higher taxes levied on fewer taxpayers (FDIs!) eat up tax incentives
- legal restrictions hinder repatriation of profits or the investment back to the headquarters of the investor (exit barrier)

**Foreign Direct Investment**

Source: by the author
Del Castillo and Ampudia (2005) list negative effects of corruption, which have been disclosed by over 1300 SMEs within a survey in Mexico to evaluate the impacts of corruption and fraud on SMEs:

- Increased costs of operation (89% of the interviewees)
- Loss of contracts to more corrupt companies (83%)
- No access to public bidding processes (79%)
- Unstable planning process (56%)
- Restricted access to goods and services (37%)

TI (2008) describes some negative effects of corruption for SMEs:

- Less attractive for acquisitions and financial organisations
- Less control over the business because corruption hinders reasonable business decisions
- Risk of legal penalties, loss of licenses and blacklisting
- Organizations will lose money on bribes, gifts and inducements
- Problems when working together with larger firms, because smaller firms which have to bribe to survive, will not be selected as reliable suppliers
- Lower chance to acquire government business

Besides poorer economic results, corruption can have nonfinancial negative effects on companies, because (1) it destroys good working relationships and lowers employee morale, (2) it results in a loss of local confidence, (3) it can harm the reputation of the company, (4) it negatively influences corporate transparency, (5) it can result in a loss of customer trust and adverse public opinion, and (6) it makes the company less attractive for prospective employees.
(TI, 2008; TRACE, 2009; PriceWaterhouseCoopers, 2008; Luo, 2008; Albrecht et al., 2011). An additional risk for corrupt companies can be the loss of insurance coverage like the insurance for directors and officers, the insurance for exports – Hermes coverage or the loss of investment and property insurance abroad (VDMA, 2011; Kerkhoff et al., 2012).

The “vicious circle” of corruption explains how corruption is leading to a lower profitability and poorer financial results, resulting in lower investments into new technologies and products. Less advanced products will not be competitive in the market and sluggish sales will increase the production costs, because a company will lose economies of scales. In the last step, companies may consider bribing to sell obsolete and less advanced products to boost sales.

The vicious circle can be summarized as follows:

Figure 6: The vicious circle of corruption within companies

The “vicious circle” of corruption within companies

- **Urgent need** to sell obsolete products
- Loss of economies of scale
- Products are less competitive in the market
- Higher production costs of the products
- Reduced investment in advanced production technologies
- Reduced investment in R & D
- Lower advanced products
- Lower cash flow in the company
- Lower profitability of the company

Source: by the author
2.6.4. Positive effects of corruption for companies

According to Okpara and Koumbiadis, (2011) a high level of corruption in the host country does not necessarily discourage SMEs from undertaking FDIs; while corruption deters investors from home countries with a low level of corruption, it does not hinder investors from home countries with high levels of corruption because these investors know, how to deal with corruption. However, this may lead to an increasing agglomeration of corrupt competitors in such countries (Cuervo-Cazurra, 2006).

Houston (2007) argues that corruption can have positive effects for companies operating in countries with weak governance because (1) it could lubricate the flow of commerce when few legal options are viable, (2) it permits the continuation of profitable activities that otherwise would decline, (3) it allows productive investments which otherwise would not occur, and (4) it circumvents licensing restrictions and administrative delays thus allowing firms to operate legally. However, Mauro (1995) refutes the widespread opinion, that “speed money” could help individuals and companies avoiding bureaucratic delay and red tape; in contrast, it is counterproductive to improve bureaucratic efficiency which then leads to even poorer government services for investors.

2.7. How to detect corruption and occupational fraud

Albrecht et al. (2011, pp. 179) and O’Gara (2004, pp. 28-29) recommend watching for “red flags” in general as well as in areas and departments which are more prone to corruption and fraud to uncover fraud in organizations:

- Items that should match but do not
- Items that should not match, but do
- Outliers and extremes
- Suspicious trends
- Accounting anomalies (e.g. low financial performance)
- Internal control weaknesses
• Analytical symptoms in data
• Extravagant lifestyles of perpetrators and personal use of the fraud proceeds
• Unusual behaviour of individuals in the organization
• Decentralized and autonomous business units
• The amounts of the individual transactions in the affected areas
• Significant middlemen or cut-outs in the value chain
• An apparent belief that the fraud would not be prosecuted even if it will be detected

Unfortunately, a lot of risks like asset security, fraud or corruption are invisible, informal and consist of "sub rosa" (i.e. confidential and undercover) actions (Cleveland et al., 2009, p.200). This makes it difficult for investors to detect them, to evaluate them and to implement appropriate strategies to avoid them (Poole-Robb and Bailey, 2002; Luo, 2002).

2.8. Strategies how to fight against corruption and occupational fraud

Prevention is always less expensive than managing the damages of corruption and occupational fraud and therefore a proactive, strategic approach is highly recommended (German Chamber of Commerce, 2011). The compliance management has to include all parts of an organisation to be effective because "corrupt behaviours can occur everywhere" (Kerkhoff et al., 2012, p. 301). Biegelman and Bartow (2012) advise that the fraud risk management has to be continuously adjusted to any changes inside and outside of the organization. For them (ibid, pp. 383), a risk management based on a mere checklist is not helpful, because "fraudsters are very adaptive and imaginative in their schemes" and one has to bring fraud prevention into the "cultural-mind-set" of all employees. Ashforth et al. (2008, p. 676) state that, "given the long history of corruption in business and the understanding of human behaviour, it would be naive to believe that self regulation can work". Wells (2007) and The German
Chamber of Commerce (2011) advise installing internal controls which hinder employees to override company rules and continuously controlling employees. However, cultural sensitivity of the management is required when implementing these controls (Holzmüller and Stöttinger, 2001). Therefore, it is essential to send the best and most qualified employees of the home base already at the beginning of the FDI process into the host country and not when it is almost too late and they have to act as fire fighters (KPMG, 2006).

Corruption is often rooted in processes outside of the organization. Therefore, companies as a part of the society have an obligation to discourage and to prevent corruption outside their organizations (Sackmann and Horstmann, 2010). Supporting social projects to improve local communities and to fight against corruption can help companies in many ways because (1) it supports employees to behave ethically inside of the company since their conditions of daily life outside of the company have improved, (2) it shows that corruption is not tolerated inside the company, (3) it supports the formal and informal corporate governance systems, and (4) it increases the image of companies in societies (Lin, 2010; Sackmann and Horstmann, 2010; Omazic, 2010). Engaging in corporate social responsibility is a way for companies to strengthen their bargaining power and therefore becoming more resistant to corruption (Kraemer and van Tulder, 2009).

Implementing a whistle-blower hotline is a good way to receive confidential anonymous information about questionable matters, since “the most common way in which workplace frauds of all kinds are uncovered is through tips” (Bishop and Hydolski, 2009, p. 78). Biegelman and Bartow (2012, p. 256) explain, that such tips are often exposed “by people with inside knowledge, including employees, vendors, customers, and others”. Miller et al. (2005) describe that whistleblowers are sensitive to wrongdoing before it is recognized by management. However, it is important to protect the identity of a potential whistle-blower anonymous and protect him against reprisals and discrediting (Martin, 2009). Whistle-blowing has to be made a part of the company culture (Søreide, 2006) and has to consider cultural issues (Poole-Robb and Bailey (2002).
The elements of corruption risk management are "assessment, prevention, detection, and response" (Bishop and Hydolski, 2009, p. 10). Poole-Robb and Bailey (2002, p. 249) recommend implementing a "Crisis Management Team" (CMT) to assess the fraud risks within the company. Fraud risks can be mapped in a "Heat Map" (Bishop and Hydolski, 2009a, see Figure 7), where management has to map the likelihood and the significance of fraud risks. The CMT then has to evaluate the likelihood and the significance of individual fraud risks for their organization and must implement appropriate strategies to avoid them. Additional help from external consulting companies, which are specialized in corruption detection and prevention, can support the CMT to do so (Funk RMCE et al, 2011; Deloitte, 2007). However, Kriebel (2012) warns that risk maps are not always helpful because some risks may be forgotten in the risk map and other risks could be compensated or eliminated in other parts of the company. Therefore, Kriebel (2012, p. 3) suggests implementing a "risk and chance matrix", since such a matrix will be more complete and therefore can help managers to evaluate their exposure to the risks of corruption and fraud as well as their ability to absorb them in a better way.

Figure 7: The Heat Map as a tool to evaluate the risks of corruption and fraud

Source: Bishop and Hydolski, (2009a, p.76)
Bishop and Hydolski (2009, pp. 31) and the Center for Democracy and Governance (1999) recommend a variety of strategies to reduce or at least to minimize the risk of corruption and fraud within the FDI:

- Understanding the business is essential for investors to detect weaknesses
- Increasing awareness of the problem within management
- Assessing the risk within the company before entering the foreign market
- Strengthening transparency and open information
- Taking care of HR-issues (e.g. reference checks, assessment and terms of employment)
- Continuous controls within the organization
- Training employees, outsourced stakeholders and managers
- Implementing hotlines and whistle-blower-protection
- Installing top management as “illuminative good examples”

O’Gara (2004, pp. 22-23) suggests (1) centralizing foreign subsidies, (2) closely observing the value chain within the company, (3) assessing outsourced activities, (4) avoiding the significant use of middleman companies and (5) closely checking the overriding of local top management against established rules. Kinney and Moore (2008, p. 109) conclude, that it is essential for international companies to set up written codes of ethics as a guideline for their employees, because companies with written codes of ethics are less likely to accept bribery; especially firms which operate internationally are more likely to have implemented written codes of ethics. Transparency International (2008, pp. 19-20) recommends implementing clear internal rules, especially in “grey areas” like (1) gifts and entertainment, (2) charitable contributions and sponsorships, and (3) facilitation payments and political contribution, thus avoiding any confusing messages sent to employees and third parties.
Data protection and security is a central element of the development for a company (Kerkhoff et al., 2012). The BSI (2007) favours the implementation of special hard- and software to detect fraudulent behaviour within an organization and to protect the IT infrastructure. The German Chamber of Commerce (2011, pp. 16-17) advises relocating sensitive functions like IT or Research and Development into separate buildings with restricted access.

Bishop and Hydolski (2009) suggest that it is essential for companies (1) to understand their own business, (2) to analyze its current environment, (3) to understand their past experience with fraud, and (4) to learn from others, how to fight against fraud and corruption. Doig and Riley (1997) recommend considering more universalistic strategies and including questions of culture, organization and the effectiveness of campaigns as well as timing and sequence when developing anti corruption strategies; these strategies have to be tailored to the social environment, in which corruption occurs. Luo (2004) argues that corruption is caused by an inadequate organizational structure and suggests improving the following organizational issues: (1) the organizational structure must fit to the needs and circumstances of the company, (2) corporate culture and values must be designed to oppose corruption, and (3) a compliance system including a code of conduct and an ethics programme has to be implemented. Business processes, which may hide corruptive actions, have to be analyzed and eventually to be redesigned (VDMA, 2010).

International organizations specialized in fighting against corruption and occupational fraud e.g. FCPA, OECD, IMF, TI, World Bank or the EU can also support companies (Sandholtz and Gray, 2003). The Integrity Pact Tool (IP) was developed by TI (Transparency International) to help governments, business and civil society working in combating corruption in the field of public contracting. Sometimes, even third parties can provide help. For example, corruption detection in Germany is of interest for the German Tax Authorities, because such wrongdoing is a crime not only in a legal, but also in a fiscal sense. During their regular tax audits, tax inspectors check companies with respect to corruption and bribing (VDMA, 2013).
Hess and Dunfee (2000) recommend that (1) the implementation process has to be flexible and transparent, (2) the strategies have to fit for the company instead of being copied from others, (3) a problem-solving methodology rather than a blame-allocating one has to be implemented, and (4) all levels and functions of the organizations have to be involved into the process. Anand et al. (2009) advise that all strategies have to be implemented in a way that they are seen in a positive light which helps that they will be accepted by various stakeholders.

In summary, the strategies can be clustered into the following topics:

- Detection and assessing of fraud
- Ethics, company culture and leadership
- Organizational issues
- Personnel and HR issues
- Strategic issues
- Management of relations with other stakeholders and third parties
- Technologies
- Reporting/disclosure

The following table lists the variety of strategies for investors to prevent corruption and occupational fraud in FDIs as well as the authors, who discuss these strategies. To gain a better overview, all of the mentioned strategies of the literature have been clustered and summarized.
### Table 3: strategies how to avoid corruption and occupational fraud

<table>
<thead>
<tr>
<th>Strategies how to avoid corruption and occupational fraud in FDIs</th>
<th>Authors</th>
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</thead>
<tbody>
<tr>
<td>• Implementing a Risk Management to understand and to manage the company's most important risks</td>
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<tr>
<td>• Knowing one’s business and identifying where one is vulnerable</td>
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<tr>
<td>• Categorizing, mapping, prioritizing and assessing any hypothetical fraud risks and manage these risks continuously; assessing likelihood and impact</td>
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<tr>
<td>• Including newer risks like pretexting or IT theft into consideration</td>
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<tr>
<td>• proactive fraud detection procedures like data analysis techniques</td>
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<tr>
<td>• IP and trademark monitoring programme</td>
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<tr>
<td>• Reputation monitoring (what are other stakeholders and third parties thinking of us?)</td>
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<tr>
<td>• Assessing past incidents of corruption and learning from them for the future</td>
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<tr>
<td>• Monitoring new requirements for being compliant with respect to new regulations</td>
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<tr>
<td>• Learning from past incidents and applying this knowledge to forecast future events</td>
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</table>

| • Implementing detection techniques (e.g. random audits, surveillance) |
| • Watching for “red flags” is essential |
| • Applying financial controls |
| • Implementing a whistle-blower hotline |
| • Implementing process controls e.g. reconciliations, independent reviews |
| • Closely observing the value chain |
| • Closely observing the purchasing, tendering and contracting processes |
| • Internal control is not a separate component but has to be embedded into the whole management process |
| • Controls have to break hierarchical structures |
| • Adjusting the fraud control to country specific issues, local environment and business models, |
| • Engaging with the results of the control to improve the detection techniques |
| • Regular stock checks |
| • Undertaking regular audits to foster continuous improvement |
### Detecting fraud (continued)

#### Managing the detection activities:

- Implementing the right combination between monitoring and punishments
- Regularly checking the anti-corruption programmes and carrying out reviews and making plausibility checks
- Undertaking a cost benefit analysis of the fraud prevention activities
- Adjusting the control activities to the risks
- Confirming allegations and collecting evidence with the help of third parties and private investigators
- Undertaking the audits by unknown third parties to avoid any familiarization
- Balancing the level of control reasonably between rules and trust
- Carrying out strict and consequent prosecution and follow up of corrupt activities and therefore destroying confidence that corrupt activities are not reciprocated
- Prosecuting offenders as a fraud deterrent
- Avoiding non prosecution agreements with corrupt employees
- Selling these actions in a positive way to increase acceptance
- Including all parts of the company

#### Ethical issues

### Codes of ethics:

- Implementing clear written codes of ethics and corporate codes of conduct (e.g. the International Chamber of Commerce – ICC rules, the Sullivan principles or the C² principles developed by the Caux Round Table)
- Specifying the rules so that there are no grey areas for interpretation
- Determining which norm should predominate when there exist conflicting norms e.g. between the investor’s country and the host country
- Adopting norms regarding social responsibility
- Writing down code of ethics is not enough, an organization has to live them
- Adopting the codes to the culture

**Authors**


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**Ethical issues**

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- Implementing clear written codes of ethics and corporate codes of conduct (e.g. the International Chamber of Commerce – ICC rules, the Sullivan principles or the C² principles developed by the Caux Round Table)
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- Adopting the codes to the culture

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## Ethical issues (continued)

### Company culture:
- Finding ways to encourage effective self regulation and ways to improve the ethical culture of corporations
- Working on the social architecture of the company, namely the informal norms of behaviour within an organization
- Anti-corruption must be made a strong part of the company culture
- Fostering trust in organizations e.g. being a trustworthy employer, promoting employee benevolence and integrity, hiring honest employees, trust also promotes the formation of "horizontal networks of cooperation" among people which decreases the level of corruption
- Fostering self controls and social controls within the company


### Leadership:
- Implementing ethical leadership including a formal ethics programme and core ethical values in policies, processes and practices senior executives have to be involved into fraud control
- Implementing top management as "illuminative good examples"
- Implementing organizational leadership where the governing authority of the organization have the skills to implement a compliance and ethics programme


### Organizational issues

#### Location:
- Relocating sensitive functions like IT or R&D into separate buildings with restricted access or even outsourcing them
- Physical asset security (e.g. locking warehouses)
- Physical limits of employee actions (limiting access to sensitive areas)

Authors: Miller et al. (2005), BSI (2007), Lange (2008), Cleveland et al. (2009), Kroll (2010), German Chamber of Commerce (2011)
<table>
<thead>
<tr>
<th>Organizational issues (continued)</th>
<th>Authors</th>
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<tbody>
<tr>
<td>• Implementing quality management and certifying processes</td>
<td></td>
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<tr>
<td>• Redesigning business process to eliminate corruptive actions and designing out corruption</td>
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<tr>
<td>• Tailoring the processes to fit the company’s needs and circumstances</td>
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<tr>
<td>• Taking care of transparent processes in the company</td>
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<tr>
<td>• Fragmentation of processes, separation of power and four eye principle, limiting authority</td>
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<tr>
<td>• Strict separation between business and private sphere</td>
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<tr>
<td>• Centralizing foreign subsidies with regard to decision making processes</td>
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<tr>
<td>• Implementing a transparent decision making process and transparent decisions</td>
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<tr>
<td>• Strong due diligence processes when one undertakes mergers and acquisitions of companies</td>
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<tr>
<td>• Reducing and scaling down regulations</td>
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<tr>
<td>• Working together in cross functional teams</td>
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<tr>
<td>• Eliminating opportunities to commit fraud i.e. “eliminating low hanging fruits”</td>
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<tr>
<td>• Early planning of resources for the FDI</td>
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<tr>
<td>• Allowing enough resources and time for the FDI process and the following periods of the operations</td>
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<tr>
<td>• Allowing enough resources for the corruption prevention activities</td>
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<tr>
<td>• Allowing enough resources for being able to be patient during the FDI process (no desperate need to bribe)</td>
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<tr>
<td><strong>Organizational issues (continued)</strong></td>
<td><strong>Authors</strong></td>
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<tr>
<td>• Information is relevant for management, therefore an extensive reporting has to be installed</td>
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<tr>
<td>• Informing about all relevant legal issues regarding corruption in the host country</td>
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<tr>
<td>• Implementing a whistle-blower-hotline to get insider information</td>
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<tr>
<td>• Getting enough background data (e.g. cultural issues) which can be correlated or have interdependencies with the level of corruption but are not visible in the first step</td>
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<tr>
<td>• Specifying policies regarding bribes, gifts, hospitality and donations to avoid grey zones</td>
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<tr>
<td>• Avoiding any confusing messages which can lead to grey areas and double standards (e.g. small bribes are allowed, but bigger ones are not allowed)</td>
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<tr>
<td>• Establishing a special association or NGO for SMEs to collect and to record information about corruption among SMEs</td>
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<tr>
<td>• Implementing non-disclosure regulations within the company and non-disclosure agreements with externals</td>
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<tr>
<td>• Informing suppliers that they will be eliminated from consideration if they try to bribe company employees</td>
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<td>• Collecting information from third parties (banks, media) and display the information internally</td>
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<tr>
<td><strong>Documentation:</strong></td>
<td>IAA, AICPA and ACFE (2008), VDMA (2011)</td>
</tr>
<tr>
<td>• Documentation of fraud and corruption prevention techniques</td>
<td></td>
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<tr>
<td>• Documentation of all relevant processes which can be hit by corruption</td>
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<tr>
<td><strong>Integration:</strong></td>
<td>Klitgaard (1998a), Sandholtz and Gray (2003), McGregor (2005), TI (2008a)</td>
</tr>
<tr>
<td>• Greater degrees of international integration and cooperation can foster the implementation of international norms</td>
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<tr>
<td>• Including all subsidiaries into the programme</td>
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<tr>
<td>• Including suppliers, agents and customers into anti-corruption activities</td>
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</table>
### Institutional Issues (continued)

<table>
<thead>
<tr>
<th>Institutions:</th>
<th>Authors</th>
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<tbody>
<tr>
<td>• Implementing a crisis management team which has to assess the fraud risks and has to implement and monitor appropriate strategies</td>
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<tr>
<td>• Implementing internal and external anti-corruption inspectors</td>
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<tr>
<td>• Establishing a special association or NGO for SMEs to collect and to record information about corruption among SMEs and to build coalitions between government agencies</td>
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<tr>
<td>• Implementing whistle blower hot lines (internal or provided by third parties) and whistle blower-protection, promising no retaliation for any reports about corrupt practices</td>
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<tr>
<td>• Implementing help lines for employees which supports them, if they have to deal with difficult ethical decisions like corruption</td>
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### HR Issues

<table>
<thead>
<tr>
<th>People:</th>
<th>Authors</th>
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<tr>
<td>• Screening employees initially in the recruitment process and later during the promotion process</td>
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<tr>
<td>• Continuous background checks of employees and regular performance reviews</td>
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<tr>
<td>• Exit management of employees (e.g. data audit to avoid data theft or conducting exit interviews)</td>
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<tr>
<td>• Reducing masculinity at the workplace (mixed teams, more females)</td>
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<tr>
<td>• Sending out the best and most qualified employees from the home base very early</td>
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<tr>
<td>• Working together in cross functional teams can promote ethical behaviour</td>
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<tr>
<td>• Immediately eliminating fraudsters</td>
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<td>HR issues (continued)</td>
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<tr>
<td><strong>Payment/compensation/accountability:</strong></td>
<td>Johnston (1998), Klitgaard (1998a), Tanzi (1998), Center for Democracy</td>
</tr>
<tr>
<td>• Rewarding employees not only for the end result without considering the means</td>
<td>and Governance (1999), Moran et al. (1999), Hess and Dunfee (2003),</td>
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<tr>
<td>(e.g. if they had paid a bribe to achieve the goal)</td>
<td>McGregor (2005), Miller et al. (2005), Sanyal (2005), IAA, AICPA and</td>
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<tr>
<td>• Realigning incentives if they lead to unethical behaviour</td>
<td>ACFE (2008), Fisman and Miguel (2008), Lange (2008), Biegelman and</td>
</tr>
<tr>
<td>• Employees have to sigh codes of ethics and have to confirm their participation</td>
<td>Bartow (2012)</td>
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<td>of regular anti corruption trainings</td>
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<tr>
<td>• Paying acceptable salaries so that employees are not enforced to accept bribes</td>
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<tr>
<td>but at the same time increasing the threat of punishment, if the employees</td>
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<tr>
<td>behave corrupt</td>
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<tr>
<td>• Empowering employees</td>
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<tr>
<td>• Implementing stiff penalties (e.g. money) and punishment for corrupt employees</td>
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<tr>
<td>• Prosecuting wrongdoers rather than paying them to go away</td>
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<tr>
<td>• Increasing individual accountability for corruptive acts by transparent processes</td>
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<tr>
<td>and audits and sanctions</td>
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<tr>
<td>• Overcoming the sense of impunity by “frying a few big fish,” but avoiding a</td>
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<tr>
<td>“large-scale witch hunt” (Klitgaard, 1998a, Box 2)</td>
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<tr>
<td><strong>HR-control:</strong></td>
<td>Doig (1998), Klitgaard (1998a), McGregor (2005), Collins et al. (2009),</td>
</tr>
<tr>
<td>• One has to focus not only on corrupt processes and systems but also on</td>
<td>German Chamber of Commerce (2011), Biegelman and Bartow (2012)</td>
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<tr>
<td>corrupt individuals</td>
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<tr>
<td>• Implementing peer controls</td>
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<tr>
<td>• Asking managers to avoid social ties with politicians and government employees</td>
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<tr>
<td>• Assuming that especially in the procurement department, people are corrupt</td>
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<td>unless proven innocent</td>
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<tr>
<td>• Screening out dishonest (using past records, tests, predictors of honesty)</td>
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<tr>
<td>• Punishing perpetrators (frying a few big fish) to overcome the sense of impunity</td>
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<tr>
<td>• Controlling company policy violations continuously</td>
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<td>HR issues (continued)</td>
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<tr>
<td>• Rotating local staff and expatriates to destroy confidence and to avoid building up trusted networks</td>
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<tr>
<td>• Placing expatriates in key management positions instead of local managers</td>
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<tr>
<td>• Continuously controlling employees and managers to hinder them to override company rules and increase the risk of detection</td>
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<tr>
<td>• Eliminating unnecessary positions and reducing the number of employees</td>
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<tr>
<td>• Encouraging top managers to engage in professional industry networks</td>
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<tr>
<td>• Implementing clear internal rules and guidelines for employees, issuing codes of ethics and of conduct for them, and keeping these rules simple</td>
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<tr>
<td>• Training of executives and employees and facilitating access to information, anti corruption workshops which help to better understand corruption, executives also have to be trained</td>
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<tr>
<td>• Fostering social norms of open communication allowing employees to discuss their ethical concerns within the company</td>
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<tr>
<td>• Reducing the autonomy of employees</td>
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<tr>
<td>• Calibrating the possible penalties for offenders in terms of deterrent effects</td>
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<tr>
<td>• Avoiding to mix personal and business issues (e.g. personal loans to directors)</td>
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<tr>
<td><strong>Strategic issues</strong></td>
<td>Biegelman and Bartow (2012, p. 233)</td>
</tr>
<tr>
<td>• Implementing a fraud risk management including written policies and strategies</td>
<td>Deloitte (2007), IAA, AICPA and ACFE (2008), VDMA (2011)</td>
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<tr>
<td>• Implementing robust strategies i.e. to stay current with local, national and world events; continuously adding new strategies</td>
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<tr>
<td>• Avoiding the market entirely or adjusting the entry mode (e.g. joint ventures are more adequate, if the level of arbitrariness of corruption is high but if the level of pervasiveness of corruption in a host country is high, a wholly owned subsidiary is more adequate). In addition, a company may consider selling certain segments of its businesses, reorganizing its business or stopping their business in certain locations to mitigate fraud risks.</td>
<td>Smarzynska and Wei (2000), Doh et al. (2003), Rodríguez et al. (2005), Tekin-Koru (2006), PriceWaterhouseCoopers (2008), Biegelman and Bartow (2012)</td>
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<tr>
<td>Strategic issues (continued)</td>
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<tr>
<td>• Avoiding the lack of an overall strategy and coordination by implementing anti-corruption programmes to prevent and to detect corruption and making them a top strategic management issue with active commitment of top management,</td>
<td>Klitgaard (1998a), Benfoddová et al. (2000), Doh et al. (2003), Miller et al. (2005), Simmons &amp; Simmons (2006), Deloitte (2007), DIHK (2008), Kinney and Moore (2008), PriceWaterhouseCoopers (2008), Kroll (2010), VDMA (2010), Albrecht et al. (2011), Ernst &amp; Young (2011)</td>
</tr>
<tr>
<td>• Strategies have to be tailored to the social and cultural environment to be effective and to be accepted by all stakeholders</td>
<td>Doig and Riley (1997), Hess and Dunfee (2003), Deloitte (2007), Fisman and Miguel (2008), Biegelman and Bartow (2012)</td>
</tr>
<tr>
<td>• Implementing multiple strategies to fight corruption instead of focusing on just a few aspects</td>
<td>Ashforth et al. (2008), Kinney and Moore (2008), Lange (2008)</td>
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<tr>
<td>• Safeguarding against unforeseen risks</td>
<td>Kroll (2010)</td>
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<tr>
<td>• Buying insurance coverage against possible and likely risks</td>
<td>Kerkhoff et al. (2012)</td>
</tr>
<tr>
<td>• Not keeping with the FDI at all costs but also thinking about an early exit if problems become too severe</td>
<td>KPMG (2006), Biegelman and Bartow (2012)</td>
</tr>
</tbody>
</table>

**Dealing with other stakeholders and third parties**

**Cooperation:**

- Working closely together with authorities, external counsels, prosecutors and non-governmental organisations (e.g. Transparency International) to control, to verify, to assure and to improve the programmes – national and international cooperation
- Participating in joint activities by groups of corporations to support government efforts in fighting corruption
- Building up integrity pacts (e.g. with government and other bidders to refrain from bribery and collusion
- Benchmarking with other companies, following the leaders
- SMEs should seek to receive support from larger companies and should work together with them
- Engaging in CSR (corporate social responsibility)
- Running workshops with other stakeholders

**Authors**

<table>
<thead>
<tr>
<th>Dealing with other stakeholders and third parties (continued)</th>
<th>Authors</th>
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<tbody>
<tr>
<td>• Imposing anti-corruption standards and integrity procedures on business partners, agents and other commercial intermediaries</td>
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<tr>
<td>• Including codes of conduct and non-disclosure agreements into purchasing and selling contracts</td>
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<td>• Communicating to vendors and business partners about fraud and training them</td>
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<tr>
<td>• Closely observing outsourced activities within the value chain and assessing other stakeholders (e.g. background checks of suppliers)</td>
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<tr>
<td>• Selecting agents carefully (screening out dishonest ones, circumvent nepotism, use networks to find honest ones)</td>
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<td>• Gaining an understanding of the robustness and the behaviour of local government</td>
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<td>• Reducing the number of transactions involving public officials</td>
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<tr>
<td>• Making social contributions and public donations instead of bribes, which helps to obtain the needed services without breaking law or ethics and which helps to strengthen civil society</td>
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<tr>
<td>• Community or grassroots participation in the monitoring of corruption</td>
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<tr>
<td>• Implementing CSR (Corporate Social Responsibility) with the society outside the business environment</td>
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<tr>
<td>• Avoiding that the business is dependent on one individual for access to government officials</td>
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<tr>
<td>• Using technology in fraud detection and monitoring (e.g. IT security, computer forensic examinations)</td>
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<tr>
<td>• Sharing knowledge of trends and history of incidents and risks (e.g. with a Microsoft Sharepoint System)</td>
<td>IAA, AICPA and ACFE (2008),</td>
</tr>
<tr>
<td>• Improving IT and communication strategies and technologies across all affiliated companies of the investor</td>
<td>BSI (2007), Di Rienzo et al. (2007)</td>
</tr>
<tr>
<td>• Installing CRM software and other technology solutions to promote data control and transparency</td>
<td>McGregor (2005)</td>
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<tr>
<td>Technologies (continued)</td>
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<tr>
<td>• Implementing an accounting system which cannot be altered to hide fraudulent activities (e.g. with a document management system)</td>
<td>Cleveland et al. (2009)</td>
</tr>
<tr>
<td>• Fighting against corruption with transparency (e.g. the use of electronic sources like the FCPA Blog)</td>
<td>Cleveland et al. (2009)</td>
</tr>
<tr>
<td>Reporting/disclosure</td>
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<tr>
<td>• Implementing a documented reporting process to solicit input on potential fraud and other risks</td>
<td>IAA, AICPA and ACFE (2008)</td>
</tr>
<tr>
<td>• Open and transparent financial disclosure, implementing a voluntarily disclosure programme and publicly reporting on the anti-corruption policies including sustainability reports</td>
<td>Center for Democracy and Governance (1999), Cleveland et al. (2009), Hess (2009)</td>
</tr>
<tr>
<td>• Accurate records and record keeping of funding of third parties (e.g. donations to organizations)</td>
<td>Marquette and Doig (2004)</td>
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</table>

Doh et al. (2003, p. 125) conclude that firms have to consider the above mentioned whole range of strategies, because none of them alone comprehensively addresses corruption and occupational fraud, “but at best, each reflects a partial solution”. Lange (2008, p. 722) adds, that “corruption control types are complex constructs best viewed in the multidimensional context of organizational corruption control overall” and cannot be viewed isolated. Urcuyo Fournier (2008, p. 12) discloses, that all of the above mentioned strategies “have to be embedded in the reality of Central America” which faces increased violence, organized crime, maras (youth gangs), poverty and drug consumption and drug trafficking.
2.9. Problems which can arise during the implementation process of the strategies

Williams and Beare (1999) criticize the four main weaknesses of current anti-corruption concepts in the following way: (1) the concepts are disconnected from the social, political and economic context and from conditions of nations, states and local communities, (2) the concepts exclusively have an economic focus, (3) the concepts are mostly based on Western business initiatives (e.g. privatization and liberalization) as the key solutions to the problem regardless of national circumstances and contexts, and (4) the corruption issues are oversimplified. Rose-Ackerman (2006, p. XXXVII) argues that “too much moralizing can lead into empty rhetoric” and that one has to address the underlying conditions that create corruption to have a long lasting effect. Doig (1998, p. 99) recommends that “one needs a thorough practical understanding of corruption” and not only theoretical knowledge.

PriceWaterhouseCoopers (2008) explains that in many companies, the awareness of the problem has increased but they still underestimate their risk of future fraud exposure. This “highlights a dangerous gap between perception and reality”, because “the corporate focus has moved away from the risk of fraud” which makes managers feeling comfortable and thereby neglecting future oriented proactive actions (PriceWaterhouseCoopers, 2009; Ernst & Young, 2011, p.16).

Hess and Ford (2008) warn that there exists a limit of deterring corruption through enforcement and explain, that whole companies or corrupt managers try to hide information about corruptive acts and hinder disclosure of violations because they fear prosecution. Tirole (1986) adds that corruption is growing fast when the information needed to fight corruption is not given to the principal or is manipulated. When corrupt employees are not willing to stop corruption, it is very difficult to change their habit (Aidt, 2003). While it is relatively easy to improve the infrastructure of an organization, it is hard to reduce the risk caused by “the human factor” (Stachowicz-Stanusch, 2010, p. 43).
Hess and Dunfee (2000) explain that the implementation of anti-corruption principles may provide little guidance to firms because they are very general and they neglect real life. O'Higgins (2006, p.249) brings in that “codes of conduct are likely to be effective only if all industry competitors adopt and enforce them and that the diversity of companies and cultures in some sectors makes it difficult to impose the discipline and consistency of approach necessary to combat corruption”. Schwab (1996, p. 499) argues, that good ethics are not always good for business because “business behaviour of questionable ethical standards is common” and not taking part in them can lead to competitive disadvantages since they are costly and they take away choice and flexibility in decision making.

VDMA (2010) argues that corruption prevention is very often managed as an operative issue instead of a strategic one, which results in a low degree of sustainability of the activities because they are not properly implemented in the regular working processes. In general, underfunding, time constraints, financial pressures and conflicts between competitive and ethical interests are the greatest barriers for companies (PricewaterhouseCoopers, 2008). Especially SMEs face human, financial and managerial constraints and they frequently have difficulties in accessing information on anti-corruption legislation which can limit their implementation capacity for successful anti corruption strategies (UNIDO and UNODC, 2006; The World Bank, 2000). A confusing message to employees arises from applying double standards when a company on the one hand pays grease money and allows small payments but on the other hand does not tolerate large bribes (TRACE, 2009).

Søreide (2007) explains, that it is very difficult for private companies to fight against corruption in public tendering processes because the competition of the market works against it and one needs a much broader approach than just focusing on bribes; she summarizes that there exists a grey area between corruption, lobbying and political pressure which is very difficult to separate. Svensson (2005) states that most anti corruption initiatives focus on the public sector, therefore neglecting to monitor and to fight corruption between private companies or in private organizations. UNIDO and UNODC (2007) and the Center for Democracy and Governance (1999) list organizational constraints for
SMEs in the implementation process of effective anti corruption strategies: (1) there exists no work split and the separation of responsibilities, (2) the owner/manager tends to assume all management responsibilities in one person, and (3) reporting mechanisms and whistle blower hotlines are difficult to maintain due to the relatively high degree of informality and financial constraints.

According to Glaeser and Goldin (2004), the separation of power which can create incentives to prosecute corruption is overstated, because in cases, where there exists a high degree of corruption, the separation of power is difficult to maintain. The World Bank (2000) adds that a high concentration of power by vested interests can hinder the separation of powers. The World Bank (2000) lists hurdles for companies during the implementation process like (1) risk of complacency and back stepping after the successful implementation of the strategies (2) cronyism and conflict of interest (3) weak structures for monitoring and accountability or (4) powerful groups block further reforms to preserve their advantages. On the one hand, Varese (1997) warns that the costs of learning new concepts to reduce corruption and the implementation of these ideas in the organization should not be underestimated. On the other hand, TRACE (2009) argues that expected difficulties during the implementation and transition period of anti-corruption-strategies have proven to be short lived and pay out well in the long run.

Additional threats can arise from internal and external stakeholders. Third parties can hinder the company's anti bribery strategies (Cleveland et al., 2009) or employees and management try to override anti corruption control mechanisms (ACFE, 2008). While a lot of companies have formal processes to assess agents and other commercial intermediaries, some managers express scepticism about the value of such due diligence checks because intermediaries are too valuable to be deeply checked (Simmons & Simmons, 2006) and especially SMEs lack the negotiation power and do not get enough support from the government, the civil society, the media and their customers to impose anti-corruption standards on business partners (UNIDO and UNODC, 2007). The solution chosen by many companies is to engage consulting firms or agents who act as middlemen in corrupt transactions and the foreign executives
preserve their sanity by not asking "unnecessary" questions—"don't ask, don't tell" (McGregor, 2005, pp. 120-121). Clissold (2010) discloses that even governmental organizations fighting against corruption as well as even police can be corrupt.

Employees generally are reluctant to implement new routines. According to Lazorenko (2010, p. 284), only 15% of people are supporting innovations, while 85% resist, criticize or sabotage them. Kerkhoff et al. (2012, p. 84) state, that it takes years to implement a well working "compliance culture" within an organization. Once companies have lost contracts to corruptive competitors almost half of them think about adjusting to "the local business culture" the next time which in many cases can include the option of active bribery (Søreide, 2006, p. 401). Clissold (2010, xxii) states that "the age-old problem of corruption in the middle ranks persists" and politicians have to make huge efforts to transmit anti-corruption policies to the local level and into the organizations.

It is important to encourage many different actors participating in whistle blower activities because no specific actor dominates the revelation of fraud (Dyck et al., 2007) and one has to consider the "paradox of whistle blowing" when doing so (ibid, p.36): those with weakest incentive to blow the whistle are the most active and they must be well protected to continue whistle-blowing. Dyck et al. (2007) also argue that stronger incentives to whistle blowing can result in an excessive amount of false claims. And finally, audits may sometimes not have detected sufficient evidence to find out corrupt activities or may not have had a larger impact since the punishments have been relatively weak (Olken, 2007).

Fortunately, Ryan (2000, p. 332) concludes that although "corruption in economic and political life is a key challenge of the 21st century", [...] there is a new and growing consensus that corruption can be confronted, curbed, contained and, perhaps, in the forthcoming millennium if not fully conquered, at least greatly minimized." Klitgaard (1998) advises that not all strategies can be implemented at once and one has to do a cost-benefit analysis to eliminate the greatest economic costs of corruption with limited funds and resources. Finally, McGregor (2005, p. 122) summarizes that "as corrupt countries become more wealthy and sophisticated" it is getting easier to avoid corruption.
2.10. Summary of the literature review and implications for this research

This section will condense the main critical aspects of the literature review with respect to corruption and occupational fraud and will also transmit them to the economic environment of El Salvador.

Corruption and occupational fraud have been existent in many cultures in the world and are not new social problems. However, they became more important in recent years, since many businesses are forced to expand their operations and have to globalize to stay competitive. In doing so, they have to deal with cultures, which are different to the one they already know. A lot of SMEs are not yet well prepared for "going international" since (1) their organizations do not poses profound knowledge of establishing and operating abroad, (2) they underestimate the cultural differences in the host country and (3) they are in general very tight on resources e.g. personnel, finances and time to support their FDIs. Additional threats arise in the host country itself. Especially emerging market economies like El Salvador still lack (1) a well developed infrastructure, (2) suffer from weaker governments because these organizations have not yet adopted to democratic structures (3) in general have a shortage of skilled and honest workforce and (4) the ethical standards are well above of the ones in the home base resulting in a higher level of crime in general and corruption and occupational fraud in particular.

Investors have to expect a higher level of corruption in emerging economies like El Salvador, since this investment destination has to suffer from a colonial past, which is strongly influenced by the Spanish culture. As a result there exists a collectivist culture in Central America, accompanied by a high degree of uncertainty avoidance, Catholicism, a high level of "machismo" and power distance. In addition, El Salvador underwent a difficult process of transformation from its colonial past, followed by a totalitarian regime and a long lasting civil war. Since the beginning of the 1990s, democratic governments have been installed, but such massive political and social changes make the country more prone to corruption. A low level of income, high rates of crime and a poor infrastructure are additional factors, which foster corruption in El Salvador. And finally, corruption in general is a cultural phenomenon, which is still well
accepted as a way of “doing business”. Within a FDI, corruption is fostered by corrupt individuals, which can operate in a company’s or industry’s environment (e.g. infrastructure projects) that does not control and prosecute corruption. Unfortunately, the longer corruption exists, the more difficult it is to eradicate it.

Cressey’s fraud triangle depicts the three factors which influence the level of corruption and fraud: (1) the opportunity to commit the criminal act e.g. there exists a lack of controls in the company, (2) the pressure of the wrongdoer e.g. severe financial pressure of the wrongdoer and (3) the rationalization of the wrongdoer i.e. it is socially acceptable for his to commit the criminal action because it is a well accepted behaviour in El Salvador and everyone born in El Salvador grew up with corruption.

All investors have to suffer from high levels of corruption, because corruption makes their investment destination less attractive for investors (e.g. poor infrastructure resulting in higher operating costs). Especially SME’s are more exposed to corruption and occupational fraud, since they lack the internal resources (e.g. time, money, knowledge) and they are in a weaker position when dealing with government agencies to obtain essential services or to get new business. As a result, SMEs lose considerably more money on corruption than bigger companies, resulting in a lower overall profitability of their business, which sometimes can even result in the loss of the whole investment in El Salvador. Any positive effects of corruption for SME’s are controversially discussed in the literature. While some authors suggest, that corruption can “grease the wheels of commerce” others state, that it would be counterproductive.

SME’s are advised to map any possible exposure to corruption and occupational fraud and to implement strict controls throughout the value chain to detect any red flags. However, in doing so, investors need to know their business very well. In addition, management has to establish a culture, which makes anti corruption and anti-fraud a top management issue and a part of the company culture. This must also be written down in a code of ethics of the organization.
HR management is one key strategy to avoid employing “bad apples” in the company. During the recruiting process, one has to scan employees in depth; one has to control employees continuously and has to fire prosecutors immediately. Maintaining a good business climate, paying and treating people fair, training them and taking care of them are additional HR strategies to reduce the level of corruption, since employees will become more loyal towards their employers. In addition, many authors suggest implementing whistle blower hotlines, where loyal employees can anonymously report any corruptive acts. Due to the fact, that HR is closely related with the culture, where an organization is embedded, all strategies have to be adjusted to the cultural environment of El Salvador.

Processes have to be streamlined and well designed to become effective, which can reduce corruption and occupational fraud. Installing trusted employees into key positions will support management to supervise the whole value chain. However, all this cannot be accomplished without installing continuous controls, which have to be updated based on past incidents as well as on knowledge, which should be shared with peers, NGOs and governmental institution fighting against corruption and occupational fraud.
3. Methodology

3.1. Research question: aims and objectives

Foreign direct investments into developing countries are riskier and have a higher degree of uncertainty and unknown challenges compared with investments into developed countries which fulfil more or less the same standards as the investor’s home country. This research problem derived from professional experience because a lot of companies currently undertake FDIs into developing countries and have to deal with corruption and occupational fraud as major threats for the existence and the profitability of their FDIs. The outcome of this study was to identify critical success factors and relevant problems as well as "practically oriented solutions" and thus helping managers of German SMEs and even investors from other countries to implement and to operate FDIs in El Salvador and other Latin American countries successfully.

3.2. Qualitative vs. quantitative approach

Finding strategies to detect and to avoid the threats of corruption and occupational fraud was a real world problem, which could be solved through qualitative research (Corbin and Strauss, 2008). Finding and investigating suitable strategies for SME’s was preferably done qualitatively because “it is conventional to correlate investigation with a qualitative approach” (Girod-Séville and Perret, 2001, p. 79) Qualitative data have been collected and analyzed to create a theory that explained relationships between the facts and allowed the production of management knowledge “for the sake of knowledge” (Patton, 2002, p. 10). Corruption and occupational fraud were very difficult to explain and have been very complex phenomena. Qualitative research methods were “well suited to explore complex research problems with high levels of uncertainty and a need to act flexible and to deal with fair amounts of ambiguity” (Corbin and Strauss, 2008, p. 14).

During their investment process, managers have to make decisions based on their subjective evaluations. Within the fieldwork of this research, managers’ decisions based on the researcher’s subjective perception have been observed.
Girod-Séville and Perret (2001, p. 81) state that a qualitative approach "allows both the subjectivity of the researcher and that of the subjects at the same time" because it offered the researcher an opportunity to confront multiple realities.

There existed many varieties of corrupt behaviour and multiple factors were contributing to corruption (de Graaf, 2007). Therefore, identifying and managing anti-corruption and anti-fraud strategies in companies were not single actions but a process which took different steps till a company had successfully implemented them. Patton (2002, p. 159) highly recommends qualitative inquiry for studying process due to the following reasons:

- Depicting processes required detailed descriptions of how people engaged with each other e.g. how managers cooperated within the organization and with external stakeholders when they have been confronted with corruption, occupational fraud or other types of crime.
- The experience of processes typically varied for different people, so their experiences needed to be captured in their own words e.g. an HR manager faced other problems than a CFO or a sales manager
- Process was fluid and dynamic; different departments of an organization were involved in the process in different times: e.g. first, one needed a permission to start a business in El Salvador and the owners have been faced with bribes towards authorities; after the establishment of the business, employees in the purchasing department have been offered bribes to prefer a corrupt supplier
- Participants' perceptions were a key process consideration: different managers had different perceptions as well as other stakeholders and people from different cultures.

Corbin and Strauss (2008, p.13) add that qualitative researchers “are drown to the fluid, evolving, and dynamic nature of this approach in contrast to the more rigid and structured format of quantitative methods” since the researcher had to interact with the people involved into corruption to find out behavioural patterns.

Prospective investors were interested to learn from the experience of German companies which have already successfully managed to reduce or to eliminate corruption within their companies. Patton (2002, p. 161) states that qualitative
research was a good method for implementation evaluation, because "implementation evaluation told decision makers what was going on in the programme" e.g. the implementation of a whistle blower programme, how the programme had developed and "how and why the programme deviated from initial plans and expectations" (ibid). Such deviations had been quite common in FDIs into emerging economies like El Salvador due to a high level of uncertainty and companies needed to know such deviations in advance to avoid them. In addition, corruption could have been attributed to almost anything and "the degree of corruption varies widely among individuals, public agencies, administrative cultures, and geographic regions" (de Graaf, 2007, p. 42).

Quantitative data are described by Saunders et al. (2009) as numerical data or data that have been quantified (e.g. by scaling). Quantitative approaches are correlated to verification and testing of theories and they offer a higher degree of objectivity (Girod-Séville and Perret, 2001). However, the necessary strictness and the lower degree of flexibility with a sensitive topic like corruption made a quantitative research less suitable for this research question (Saunders et al., 2009) because the quantification of data was not a priority for the development of anti corruption strategies and "controlling variables to measure their effect" has not been the primary concern of this research (Hammersley et al., 2011, p. 4). In addition, the collection of quantitative data would not have answered the "how question" – how can SMEs avoid the threat of corruption (Yin, 2009; Pratt, 2009). A quantitative survey would "have missed the powerful way that current experiences were shaped by the organizational history especially through myths and stories" (Länsisalmi et al., 2004, p. 249). De Graaf and Huberts (2008, p. 640) add that quantitative research could not have accounted for contingency which was very important for this research caused by the complexity of the phenomena of corruption and occupational fraud.

Questionnaires are very often used to collect quantitative data (Saunders et al., 2009). Corruption and occupational fraud have been sensitive topics. A weakness of a questionnaire for this research could have been that words or questions within the questionnaire were loaded, which could have resulted in "a social desirability bias" of the answers or even wrong answers and could have offended the interviewees (Oppenheim, 1992, p. 138). In addition, the use of
questionnaires could have missed the huge continuum of problems and problem solving strategies related with corruption and occupational fraud in companies (Patton, 2002). A questionnaire may have restricted the interviewee to think in the box and not to reflect about additional ideas how to fight against corruption.

Furthermore, questionnaires could have hindered an unfolding research. Based on the fact, that corrupt activities in organizations were mostly hidden, the existing knowledge was more of a theoretical nature. Therefore, an unfolding research was better applicable than a pre-structured research because at the beginning of the research, it was not clear, what questions and what data will come up; since "these thinks will unfold as the study progresses" (Punch, 2006, p. 157). Finally, due to the small size of German companies, the sample size for implementing quantitative research methods would not have been sufficient (Oppenheim, 1992; Pallant, 2007).

3.3. Philosophical and epistemological underpinnings

3.3.1. Inductive Approach

The aim of this research was to develop successful strategies how to avoid corruption and occupational fraud by observing, how German investors deal with these problems in El Salvador. Saunders et al. (2009, pp. 127 and 593) describe that induction "involves the development of a theory as a result of the observation of empirical data" and that induction emphasises the collection of qualitative data. Hamel et al. (1993, p. 17) support this view and state that social life must be seen "as a process or a movement which could only be understood if the meanings assigned to it by its own actors were incorporated within it."

By observing German FDIs in El Salvador and analyzing how they deal with corruption, it was intended to apply this knowledge for investors into other Central American countries where they have to deal with similar problems. Punch (2006, p. 153) therefore supports an inductive approach "because the research is moving upwards in levels of abstraction".
3.3.2. Interpretivism

It was important to understand managers in their role as social actors. Interpretivism advocates that this understanding was necessary because humans play an important part in the management process where "they interpret the situation in their own way and act in accordance with this interpretation" (Saunders et al., 2009, p. 116). The ontological view of interpretivists presumes that "the nature of reality is constructed, interpreted and experienced by people in their interaction with each other and with wider social systems" (Voce, 2004, p. 2). Voce (2004, p. 3) explains the role of interpretivist research as "to study mental, social and cultural phenomena – in an endeavour to understand why people behave in a certain way" (i.e. why managers have made a specific decision to solve a concrete problem when dealing with corruption or occupational fraud).

The interpretivist way of reasoning and validation for this research was inductive (Girod-Séville and Perret, 2001, p. 25). Saunders et al. (2009) recommend a qualitative data collection to investigate the management processes of German companies within the interpretivist research philosophy, using small samples and in depth investigations. This approach is supported by Mackenzie and Knipe (2006, p. 197) who state that interpretivists use qualitative data like "interviews, observations, document reviews and visual data analysis".

3.3.3. Pragmatism

The researcher was interested to find out what could be suitable strategies to avoid the threats of corruption and occupation fraud when implementing and managing a FDI in El Salvador. Tashakkori and Teddlie (1998) argue that the most important reason for undertaking a study is what is of value for the researcher and what he can apply to help others with his research. Pragmatists are problem centred and are interested in the consequences of actions e.g. the consequences of corruptive behaviour in organizations (Mackenzie and Knipe, 2006). "Pragmatism argues that the most important determinant of the research philosophy adopted is the research question." (Saunders et al., 2009, p. 598). Mackenzie and Knipe (2006, p. 196) add, that "pragmatists are not committed to
any one system of philosophy or reality but focus on the research problem as central and apply all approaches to understand the problem". Corruption and occupational fraud are very complex phenomena (de Graaf, 2007) and therefore, different perspectives have been required to collect and to interpret data. Pragmatists take these different perspectives as well as collective knowledge under temporal aspects (i.e. knowledge from different stakeholders) into consideration (Corbin and Strauss, 2008).

3.4. Data gathering

With respect to data sources "grounded theory as a base of case study often applies triangulation, namely combines different types of data collected by interviews, participative observation and analysis" (Länsisalmi et al., 2004, p. 242). Corbin and Strauss (2008) add that one of the virtues of qualitative research is that there are many sources of data. Goulding (1999, p. 7) states that "grounded theory requires an understanding of related theory and empirical work in order to enhance theoretical sensitivity". This position is supported by Due to time and financial constraints, the researcher needed "the classic trade-offs between breadth and depth" (Patton, 2002, p. 227) in finding the appropriate sample size of companies in El Salvador. Yin (2009, pp. 43 and 53) argues that "single case studies do not necessarily offer a poor basis for generalizing, but replicating the findings in a second or even third case will strengthen the research" and that "the evidence from multiple cases is considered more compelling and more robust". For this research, just a few "illuminative" and "deviant" cases have been chosen, because "such cases were cases, one could learn most from" (Patton, 2002, pp. 230-233).

As a result about 20 in depth, semi-structured interviews had been undertaken. The small number of interviews allowed the researcher to find key informants e.g. CEOs of various companies within a reasonable time horizon. In contrast to a quantitative research where a minimum number of cases would have been necessary to generalize the research results, just a few cases have been required because even one good case would have illuminated the working of a social system (Mitchell, 2011; Yin, 2009). The interviewees have been

75
sampled in an opportunistic approach. Fieldwork often involves "on-the-spot decisions" about sampling to take advantage of new opportunities during the data collection which cannot be made in advance (Patton, 2002, p. 240). The German-Salvadorian Chamber of Commerce as well as close relatives of the researcher, who immigrated to El Salvador 45 years ago together with some of their friends, helped the researcher to gain access to companies and to find interview partners, which had been willing to talk honestly about this sensitive research topic. The fieldwork was accomplished during a two week visit in El Salvador. The multi-site qualitative research (about 10 sites have been visited) allowed a cross-site comparison and the generalization of the data which made the findings more robust (Herriott and Firestone, 1983).

3.5. Data sources

The following qualitative data sources for the research, which are also discussed by Yin (2009) have been used

- Interviews were a good method "to find out things that cannot be observed directly" (Patton, 2002, p. 340). Hintikka (2000) supports questioning as a useful model for many different types of knowledge-seeking. Corbin and Strauss (2008, p. 27) recommend that "the most data dense interviews are those that are unstructured and not dictated by any predetermined set of questions". However, responses could be biased due to an expected social outcome (Klaiber, 2005) and it may be difficult to recruit busy people for interviews (Oppenheim, 1992). Based on the facts, that (1) there could exist a different understanding about corruption between the interviewer and the interviewee, (2) corruption was a very sensitive topic, (3) some interviewees had been hesitant in the first step to talk about corruptive activities and (4) corruption comprised a lot of activities which at the beginning of the interview have not been very clear, semi-structured interviews had been implemented. More open questions allowed the researcher a higher degree of flexibility and gave the interviewee the chance to discuss a greater variety of issues and bring in personal experiences. Semi-
structured interviews helped the interviewer to act more flexible because each interviewee had his own understanding and had different experiences and encounters with corruption and fraud. The idea of such an interview was not primarily to gather data but to collect "ideas" how to fight against corruption (Oppenheim, 1992, p. 67). Girtler (2001, p. 147 and 2009, pp. 106-107) describes this type of interview as an "ero-epical dialogue" where the researcher as well as the interviewee felt comfortable and both were interested to discuss possible strategies to reduce the corruption within organisations. Such a kind of dialogue did not bore the interviewee and the interpersonal communication allowed the interviewees to talk more freely about loaded topics like corruption and occupational fraud which they normally do not like (Girtler, 2001).

Interviews had been written down but were not recorded, which encouraged the interviewees to talk more freely. Due to cultural differences, language problems and differences in the understanding of such a sensitive topic like corruption, it was necessary that the researcher as well as the interviewee had a common understanding of the information disclosed and obtained within the interview. Therefore, after having written down the interview, the researcher summarized the key findings at the end of the interviews for further discussion and gave the interviewee the chance to add comments or missing information.

- **Literature, documentation and archival records** have been additional sources of information for this research question; however access to internal data of the companies was mostly neglected or incomplete (Patton, 2002) and all documents had to be "critically evaluated to assess their value" (Wallace and Wray, 2006, p. 4). Yin (2009) recommends supporting textbooks and articles as additional sources of case study evidence. Corruption is embedded into organizations and "much can be learned about an organization, its structure, and how it functions [...] by studying its reports, correspondence, and internal memos" (Corbin and Strauss, 2008, p. 39).
• **Direct observations** provided a check on what was reported in interviews but were limited due to timely constraints for the research (Patton, 2002; Corbin and Strauss, 2008). However, Yin (2009, pp. 109-111) supports this method, because a case study should take place in the natural setting of the “case”, which could give a good opportunity for observations like company facilities or management processes. Direct observations helped the researcher to get a feeling about the context of the research. Corbin and Strauss (2008) argue that it is very important to know this context since it sets the conditions, in which corruption and occupational fraud arise and to which involved persons respond through some form of action. During the fieldwork, the researcher occasionally asked the companies for permission to take pictures, thus enriching the written documents.

Brainstorming about the results and generating additional ideals helped the researcher to seek clarification about the obtained research results (Saunders et al., 2009). Such an iterative process brought up a broad range of new perspectives and ideas to illuminate the research with new ideas. In addition, discussing the results with experts and asking questions about the findings of the results helped to triangulate the findings, allowed the researcher to include such new knowledge into future interviews and have been important tools to analyze the data because it enabled the researcher to probe the data, to become acquainted with the data and to “think outside of the box” (Corbin and Strauss, 2008, p. 69).
3.6. Grounded Theory to analyze the data

"Grounded theory has been developed by Glaser and Strauss in 1967" and "is a specific methodology for the purpose of building theory from data" (Corbin and Strauss, 2008, p.1). Glaser and Strauss (2010) state that theory for any social units (e.g. FDIs in El Salvador) can be generated through a constant process of data collection and data analyses which finally has to be brought to a close "when the researcher is convinced that his conceptual framework forms a systematic theory" (ibid, p.224). Grounded Theory depends on methods that take the researcher into and close to the real world (i.e. the world of investors in Central America) "so that the results and findings are grounded in the empirical world rather than in the laboratory" (Patton, 2002, p. 124). The theory from this fieldwork was inductively generated and "emerged from the researcher's observations and interviews" (Patton, 2002, p. 11). Royer and Zarłowski (2001, p. 114) describe the data analysis of Grounded Theory as an "iterative process with interaction between data, analysis and theory". The data collection and analysis are iterative processes which "allowed a theory development which was grounded in empirical evidence" (Hartley, 2004, p. 329).

Smythe and Giddings (2007, p. 44) define Grounded Theory "as a methodology of asking questions about processes" and therefore helped to evaluate management processes in El Salvador. Patton (2002, p. 127) states that Grounded Theory "is meant to build theory rather than to test theory". Grounded Theory fitted very well for the data analysis of this research question because the research has been done in the real world of German investors operating in Latin America and the outcome of this research was to generate practical knowledge for prospective investors in El Salvador to prevent corruption and occupational fraud. This approach is supported by Läänsisalmi et al. (2004, p. 243) who highly recommend Grounded Theory in organizational research because "it produces descriptions of organizational reality, which forms a basis for positive organizational development trends". Royer and Zarłowski (2001, p. 114) state that the main objective of Grounded Theory is to "construct an explanatory theory about a social phenomenon based on the identification of regularities" i.e. to find successful strategies based on gathering information from companies which have already invested in El Salvador.
The five stages of analyzing the collected data for Grounded Theory of this research have been summarized as follows (Corbin and Strauss, 2008; Glaser and Strauss, 2010; Saunders et al., 2009, pp. 490-491):

1. Coding the key points and themes of the collected data
2. Grouping the codes into similar concepts
3. Forming categories from the concepts
4. Drawing and verifying conclusions
5. Generating anti corruption strategies for German SMEs in El Salvador based on the categories, discovered patterns and relationships

Glaser and Strauss (2010, pp. 105) describe these analytic steps as the “constant comparative method” because “the comparison and the integration of the categories and their properties and the following delimitation and generation of theory is a continuously growing process where each step is transformed to the next and earlier steps do remain in operation simultaneously”. Goulding (1999) supports this approach by advising that, as soon as the data have been collected they have to be analysed simultaneously by looking for all possible interpretations. The more interviews have been done, the better the research results became because the knowledge from former cases helped the researcher to gather additional knowledge and to triangulate former results as well as the results from the literature review. “The intimate interaction with actual evidence often produces theory which closely mirrors reality” (Eisenhardt, 1989, p. 547) and therefore the research produced practically oriented strategies for SME’s, which have been already tested to work in El Salvador.

Some authors e.g. Patton (2002), Yin (2009) or Saunders et al. (2009) suggest using software to analyze qualitative data. However, a cost-benefit calculation for applying these tools (handling of the software, quality of the analysis and cost of the software) did not support to use such software. Instead, coding the research results from the semi-structured interviews with colours, post-its and text markers to look for common patterns has been more appropriate.
3.7. Limitations

- Klaiber (2005) describes this research question as very complex. Depending on different personalities, strategies varied and it was sometimes difficult to summarize. However, Flyvbjerg (2006, p. 241) opposes, that "the difficulty in summarizing is due to the properties of the reality studied and not depending on the research method". The focus of this research was to develop practically oriented knowledge which would be immediately applicable. Gray (2009, p. 251) argues that "while analytic generalization is appropriate, statistical generalization is certainly not" and Patton (2002, p. 582) refers to Cronbach (1975) who states that "generalization becomes obsolete and decays within time". Therefore, generalization was not appropriate for this research question because managers had to deal "right now" with corruption.

- The qualitative study was limited by the sensitivity and integrity of the researcher who was the primary instrument of data collection and data analysis (Internet Blog: Tomorrow’s Professor Blog, 2010). Hamel et al. (1993, p. 23) describe “this problem of lack of rigor in the collection, construction, and analysis of the empirical materials as one of the problems in any sociological study”. However, training in observing and interviewing people helped the researcher to reduce these limitations. In addition, the researcher had to behave ethically in the selection of the cases or the information from the cases because an unethical researcher could have developed anything from the cases he wished by selecting what he needed to do so (Guba and Lincoln, 1981).

- Some corrupt activities were unobservable because they have been committed secretly, so just their results were observable. While positivists argue that theories that contain unobservable should not be judged because they cannot be empirically verified, realists state that theories cannot be rejected “just because they contain key constructs that are unobservable” (Godfrey and Hill, 1995, p. 527). Therefore, dealing with unobservables in the research on corruption and occupational fraud still enabled the researcher developing strategies how to avoid their negative impacts on organizations.
3.8. Ethical considerations

Corruption and occupational fraud are sensitive topics and are mostly accomplished "sub rosa" i.e. secretly (Cleveland et al., 2009, p. 200). Observing and interviewing people in different cultures was difficult because the cultural background of the observer and that of the observed differed. As a result, the researcher had to understand the different culture that consists of different values, symbols and rituals (Hofstede et al., 2010).

The researcher had to take ethical issues into consideration during the fieldwork (Girtler, 2001):

- He had to respect the people he was working with and did not regard them as "mere suppliers of the required data for his research" (ibid, p. 170).

- He really had to understand the people involved and felt sympathy for them. This included that he had to use any sensitive information about corruption and occupational fraud reasonable and he avoided harming his informants because he did not want to disturb the life in the field.

- The researcher had to put last his own values during the research. However, he did not lose his own moral values during the research.

As a result, the researcher did not disclose his informants or any information, which could have harmed the informant. In addition, the researcher had to be careful not to be harmed because he got access to information that contained dangerous contents. The consultation with the Faculty Ethics Committee of The Faculty of Business, Economics and Law at the University of Surrey agreed that no ethical approval for this research project was required, because the interviewees and the companies they work for were kept anonymously. Therefore, such information will be kept confidential in the thesis.
3.9. Interview process and evaluation of the data

At the beginning of the research, the researcher was well aware, that a research topic including corruption and occupational fraud in a country where there exists a considerably higher level of corruption and fraud compared with the researcher's home country could result in a lower willingness for prospective interviewees to agree talking to the researcher in general and openly talking about these loaded issues in specific to a person from a foreign culture, which at the time of the first encounter would be unknown to them. As a result, the researcher would require help from individuals as well as institutions to get access to informants. Close relatives of the researcher had been willing to support him in getting informants. Together with his relatives and the local German-El Salvadorian Chamber of Commerce in El Salvador, the researcher got access to the database of interesting companies. Before starting the fieldwork, the researcher selected prudently about 30 companies and the Chamber of Commerce was willing to contact these prospective interviewees and asking them to participate in the fieldwork. It was intended to do about two interviews per day within the two week period, which was set for the fieldwork, summing up to about 24 interviews and allowing a satisfactory number of interviews to be taken.

However, when the researcher arrived in El Salvador and had his first meeting with the Chamber of Commerce, just four appointments have been made. The director of the chamber excused himself by stating that (1) a lot of companies were not willing to talk about this topic (2) the prospective interviewees had not time for interviews (3) the researcher was unknown to them, (4) they felt a bad reputation and (5) "mañana" – everything will be done tomorrow. This was an unexpected obstacle, because the researcher had not only to prepare himself for the interviews but also had to find interview partners. Fortunately, his relatives helped him in finding additional interview partners and after talking to some of them, the interviewees felt confident and recommended the researcher to others. This "snowballing" approach finally allowed the researcher to find 22 interviewees willing to talk about corruption, occupational fraud and other crimes in El Salvador.
Within his first interviews, the researcher started the interviews with the loaded topic of “corruption”. However, the researcher felt, that it was difficult for people to talk about corruption, since this was always regarded as being active in that process, thus undertaking a criminal act. To ease the conversation, the researcher changed his tactics and started with the topic “occupational fraud”. As a result, managers and owners of companies in El Salvador started to talk openly how they have been betrayed by employees, because they felt that occupational fraud was a topic, where they have been the victims instead of the perpetrator. They felt comfortable and when the researcher switched to the topic “corruption”, the interviewees continued to talk openly about this topic.

The researcher had prepared a guideline for the semi-structured interview (see Appendix A) so that he could follow a structured sequence of relevant questions. However, after the first interviews, he found out, that this guideline was not helpful for him in various ways, since (1) each interviewee had his/her own personality, which did not always fit to the questionnaire, (2) each interviewee had different experiences and so, he/she was not able to answer all topics, (3) the wording of the questions could have been loaded, thus offending the interviewees, (4) the sequence of the questions could have misguided the interviewees into a predefined direction, (5) the questions could have forgotten issues which the researcher was not able to anticipate (e.g. the issue of mara crime) and (6) sticking to the questionnaire disrupted the interviewees in their individual flow to disclose their personal information. As a result, the researcher discontinued sticking to the questionnaire after his first interviews.

The data obtained during the interviews comprised a huge continuum of information. At the beginning, the researcher made clear, that he would not record the interview with any type of electronic device or film the interview with a camera, because this would have made the interviewee feeling uncomfortable and his information could be traced back to him. The researcher collected the data by writing them down onto paper. He did not use a notebook, since opening the screen of a notebook would have built up a physical barrier between the researcher and the interviewee, which could have made the interviewee feeling uncomfortable and not being close to the researcher.
As soon, as each interview has been accomplished, the researcher typed his information into his computer, supported by his latest memory and the notes taken. He then started coding the information (see Appendix C), grouping the codes into similar concepts, forming categories and drawing and verifying concept (Glaser and Strauss, 2010; Corbin and Strauss, 2008). He carried the information given in previous interviews into the following interviews to triangulate the previous information and to refine the questions in the following interviews.

In the following chapter, the strategies and tactical approaches for German investors, how to avoid corruption, occupational fraud and the threat of mara crime will be distilled.
4. Findings of the interviews

4.1. Introduction

"Nitimur in vetitum semper cupimusque negata."

We always strive for the forbidden and desire what is denied to us (Ovid, 43 BC - AD 17, Amores III, 4, 17).

This chapter displays the huge continuum of information displayed by the interviewees. El Salvador is a considerably small country, where a lot of entrepreneurs know each other. Talking openly and honestly about sensitive topics like corruption and occupational fraud could bear the risk of harming the informants. As a result, the quotes within this chapter are not openly attributed to protect the security of the interviewees.

Most of the interviewees stated that, in comparison to El Salvador, the level of corruption and occupational fraud is higher in Mexico, Guatemala and Honduras and is lower in Nicaragua and Costa Rica. The majority of them felt, that the level of corruption in the government of El Salvador has increased within the last few years. “There are not any government employees who are not corrupt” stated a businessman. The growing level of corruption is fostered by the fact that the number of government employees has increased by more than 20% in the last years and the level of red tape and bureaucracy has become worse. Some experts explained, that “These developments are also supported by poorer rankings of El Salvador by TI and LATINOBAROMETRO recently. The people of El Salvador have changed their attitude towards bribing and want more transparency in political processes.” Another interviewee added that the poorer rankings are a result of a growing amount of information about corruption, which increased the awareness of corruption and occupational fraud in society.

While grand corruption on the executive level has decreased, local municipalities and their mayors are seen as being very corrupt since they frequently ask for “mordidas” (bribes), otherwise they are delaying services. A businessman stated, that “bribing and paying kickbacks has increased within the last few years, especially in the energy sector, which is an essential service
for everyone”. Some corrupt municipalities even “invent” special permits one has to get but which are not allowed and are not legal to ask for. “As a result, between 3% and 10% of the investment sum has to be added for such commissions, which makes the whole investment more expensive” had one of the interviewees consulting prospective investors in El Salvador calculated.

Within the bidding processes of governmental tenders exists a lot of corruption and the country is losing competitiveness due to corruption and red tape. Public services like energy, water, construction, health care or waste management are regarded as being very corrupt and it is sometimes necessary to bribe officials to get essentially needed services and to speed up processes. Other interviewees illustrated, that doctors in public hospitals are poorly paid, so they ask for bribes from patients or they maintain a private doctor’s office, where they can provide better service, but the patient has to pay additional fees for this service. Local police officers are in general very corrupt, because they are not well educated, poorly equipped and not well paid. The officers’ salaries are just above the minimum wage, so they are in desperate need for additional income. They earn about 300 USD and can make an additional income of 200 USD per month with extortion. A highway officer told one of the interviewees that “The more I control the more money I can earn to support my family”. Additional corruption exists among tax and customs inspectors and as a result, almost 30% of the official tax revenues are lost to corrupt officials. An entrepreneur stated that he once had to bribe a corrupt tax officer, because the inspector audited his small company for almost 6 months; on the one hand, the inspector did not find major irregularities but on the other hand, he did not stop the investigation, hindered the business operations and “the only way to get rid of him was to give him some money”, disclosed the manager of this company.

Since about 2009, the government of El Salvador has done a lot to fight against corruption and occupational fraud and to foster transparency within its governmental processes. The government has installed a ministry for transparency, which closely monitors the executive part and it has passed a transparency law, which (1) allows everybody to ask for information about government processes; one has to file a petition to a central office which then gathers the information from the various ministries (2) requests that all
subsidies to private companies have to be disclosed and (3) encourages the public to ask for budget plans as well as budget spending of any ministry. However, this office does not yet operate; the board of directors has not been elected because the congress blocks it. Therefore, just in the construction business, a small effort in reducing corruption has been achieved. The construction business has in former years been very corrupt; about 15% of the volume of each tender was eaten up by corruption. The managers in the visited companies also feel an increasing threat by occupational fraud and organized crime and some of them have calculated the damage caused by fraudulent employees up to 5% of the revenues. In addition, the costs for operating their business (e.g. for transportation and security) have tremendously increased by the growth of various mara gangs.

The following forms of corruption and occupational fraud have been discussed during the interviews:

Figure 8: Forms of corruption and occupational fraud discussed during the interviews

![Forms of corruption and occupational fraud](image)

Source: by the author
4.2. How to avoid corruption

The following figure summarizes the strategies of the interviewees to eliminate or at least to reduce corruption. These strategies will be discussed in more detail in this chapter.

Figure 9: Main strategies how to avoid corruption

<table>
<thead>
<tr>
<th>Management</th>
<th>Attitude</th>
<th>Pragmatism</th>
<th>Sales and Products</th>
<th>Organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tone at the top</td>
<td>Strictly saying no</td>
<td>Playing the game</td>
<td>Installing</td>
<td>Allowing enough</td>
</tr>
<tr>
<td>Ethics are a top</td>
<td>to corruption</td>
<td>Tolerating small</td>
<td>intermediaries</td>
<td>time for the FDI</td>
</tr>
<tr>
<td>management issue</td>
<td>No business with</td>
<td>bribes</td>
<td>Inserting sales</td>
<td></td>
</tr>
<tr>
<td>Leading by honest</td>
<td>government</td>
<td>Paying for public</td>
<td>consultants</td>
<td></td>
</tr>
<tr>
<td>examples</td>
<td>Patience</td>
<td>projects instead</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implementing</td>
<td>Strictly prosecuting</td>
<td>Offering personal</td>
<td>Lobbying</td>
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<tr>
<td>trusted managers</td>
<td>offenders</td>
<td>bribes</td>
<td>Outsourcing corrupt</td>
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<td></td>
<td>Always following</td>
<td>Considering the</td>
<td>activities</td>
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<td></td>
<td>the rules</td>
<td>&quot;Pareto Principle&quot;</td>
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<td></td>
<td></td>
<td>Giving offenders a</td>
<td>Selling products</td>
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<td></td>
<td></td>
<td>second chance</td>
<td>with a USP</td>
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<td></td>
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<td>Avoiding &quot;corrupt&quot;</td>
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<td></td>
<td></td>
<td></td>
<td>industries</td>
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</tr>
</tbody>
</table>

Main strategy: "Tropicalize" the strategies to the cultural environment

Source: by the author

4.2.1. Avoiding business with the government

19 interviewees agreed that one has to avoid doing business with the government to evade being involved into corruption. The first answer when asking private businesspeople was always the same: "If you do not want to get involved into corruption, avoid doing business with the government." and "When one bids for public tenders of higher volumes, it is normal to bribe." As a result, a lot of private companies do not work together with governmental institutions, do not sell to the government and do not bid for tenders of the government; so they do not get in touch with corruption. The majority of these companies focus
on business with smaller, private owned companies. One interviewee explained, that corruption in the private sector has decreased within the last few years and "is not longer a big issue to worry about because the awareness of corruption within the companies has increased".

A few companies work together with governmental agencies and bid for public tenders. They felt, that the high level of corruption is possible, because public officials have discrete power to make decisions since they are not adequately controlled. These entrepreneurs stated, that bribes and kickbacks are essential for the quotation process, because "one has to bribe to get the information about the competitors' prices" and when one gets the order, one has to pay a commission to the officers so that they approve the quality of the goods delivered and allow that the invoices will be paid". One company sells sporting goods to public customers and the owner explained that "When one does not comply with that game, one does not get the orders". The tenders' volumes for sporting equipment are between 5.000 USD and 400.000 USD. The owner reported that when he started his business, he did not bribe and he had always lost his tenders although his products have been of a higher quality and offers have been about 30% lower than his competitors' prices. He admitted that he started "to play the game" and since then, he got some nice orders.

And finally, some interviewees warned to be very careful in supporting governmental institutions e.g. in the form of donations or gifts, because this is frequently correlated with corruption. One entrepreneur openly sponsors a school, which is good for his company's image and also reduces the rate of illiteracy in the country. The owner of gas stations once supported an "anti-drug-campaign" from the government with T-shirts and drinks, but not with money. Both managers advised, that "sponsoring has to be made public and so, everyone knows, that this has not been done in exchange for a favour".

4.2.2. Management offering a good example

17 interviewees agreed that management has to give good, illustrative and honest examples in the organization to reduce corruption and occupational fraud, because this will also convince their employees to behave in the same
way. The majority of interviewees assumed, that they would be good managers and that they would be successful in giving good examples for their employees. "Ethics, honesty and anti corruption is a top management issue and he as well as his top managers act as good, illustrative examples" disclosed one of the interviewees.

Another interviewee stated that managers and superiors should not turn their heads away from corruption and occupational fraud, because in doing so, they would give bad examples to their employees. For her, it is very important, that owners and upper managers have "to start their anti corruption activities from inside the company". She explained, that "the only way to change the culture in an organization is that management gives good examples to their employees – otherwise, any anti corruption activities will not work". A manager of a private company stated that ethics, honesty and anti corruption are top management issues and that he asks his top managers as well as his team leaders to act as illustrative good examples for his employees. Behaving in an honest way and acting as an illustrative example is very easy for the owner of a conglomerate of businesses, because he is a religious man. In his various businesses, he has employed a lot of trusted manager from his parish, which share the same ethical values and therefore behave in the same way as he does. He has spread this culture of honesty and mutual trust to all of his companies and as a result, he has no problems with corruption and occupational fraud in his companies.

4.2.3. Strictly saying no to corruption

All interviewees initially stated that they do not tolerate corruption, but during the interviews, half of them admitted, that they would consider small bribes to get desperately needed services from authorities and to speed up governmental processes. One interviewee recommended considering the following scenario: "When undertaking the cost-benefit calculation of a corruptive behaviour, an organization must be aware that paying bribes can result in "being on the front page of a newspaper and being accused of corruption". Does the organization want this and want to live with that?" A manager in the real estate business
added that getting access to water and electricity was always a process peppered with a lot of red tape for him, but finally, everything could get achieved without bribing. And he really questioned if bribing could have been helpful for him to speed up the process, since some of his problems had been technical ones, where “[...] an engineer, the right technology and an adequate infrastructure were more helpful than money to get things done”.

The owner of a conglomerate of companies explained that he owns the reputation, that “whenever he is faced with corruption, he will not pay and in the worst case will stop the business.” Based on his reputation, the propensity of any official asking him for a “mordida” is very low. He summarized that “avoiding bribes in getting business does not necessarily result in less business. Some customers explicitly want to do business with him because they know that he is “clean” and not corrupt.” This strategy was supported by a wholesaler for technical equipment who in former years had bribed a lot to get business from the government with a high profit margin and to avoid losing any business to corrupt competitors. However, bribing did not pay out financially for him in the long run, because his business has only low profit margins and so, he stopped paying “mordidas” and increased his profit.

Bribing does not always result in a good deal for the briber. A real estate manager once had been approached by a corrupt manager of one of his tenants. He was asked to pay a “mordida” and in exchange that corrupt manager would help him to switch to a cheaper supplier for electricity, which could have saved his business a lot of money. The real estate manger declined and did stay with his current supplier for electricity. A few weeks later, the corrupt manager was blown up by the police, which found out, that the prospective supplier for the utilities had also been approached by that corrupt manager to pay a commission for getting a new customer.

The owner of a trucking business reported that a few years ago, he desperately wanted to get the transport business for a big supermarket chain. He was asked for a bribe of 50.000 USD to get the business. He insisted that this was “his first and last bribe, which he has paid”, because someone else got the business and he lost the 50.000 USD. He had no chance to sue the corrupt purchasing
manager who betrayed him, because he himself behaved illegally. He summarized, that "This was an expensive lesson, he had learned from" and now, he strictly says no to corruption, because "corruption does not pay out in the long run".

And finally, corruption is always a two way game. "Nothing is for free" explained one of the interviewees. He reported that close friends of the current president always win bids or the bidding processes are facilitated for them by lowering the size of the tenders, so that no official bidding processes are required. He thought, that "On the one hand, these friends make a lot of money, because they can get business with high profit margins but on the other hand, they owe the president a favour and it would not be wise for them to reject any wishes of the president, no matter what these wishes are and when they will be demanded". The interviewee added that these projects could be windfall profits for them, when the president's term is finished, because they have to fear that their corrupt activities will be uncovered and that they will be prosecuted by the new government.

4.2.4. Tolerating a certain level of corruption

At the beginning of the interviews, most of the managers stated, that they have denied paying any bribes, which resulted in the loss of business to a corrupt competitor or the delay of desperately needed permissions from the government. However, when the interviews proceeded and the interviewees became more comfortable with the researcher, many of them committed, that they sometimes bribe to get desperately needed services from governmental or public organizations. They distinguished corruption in the form of actively bribing to get business from bribing in the form of managing a company and getting access to essential services. The majority of the interviewees agreed, that the latter form of corruption is tolerable for them. They explained, that one cannot eliminate corruption and occupational fraud completely but has to live with a certain level of it and that this is a "cultural thing all over Latin America, which cannot be eradicated".
One company was once controlled by a corrupt tax auditor. The auditor did not find any major irregularities but anyway went on with the audit for several months. In doing so, he kept the accounting department and the management busy by his mere presence in the premises and by asking questions to everyone and requesting copies of documents he slowed down regular operations. After some time, the owner cautiously offered some money. As soon as the “mordida” was paid, the auditor left the company. Another entrepreneur excused himself with having undertaken a cost-benefit calculation when paying a bribe to get a desperately needed permission to build his new warehouse. For him, paying a few hundred Dollars to speed up the process versus the loss of a not having the new warehouse in operation was “acceptable and a business risk, he can live with”. The manager of a NGO fostering transparency within the government described that “In a lot of government institutions, the clearing of expenses, travelling costs and other smaller payments are very opaque and any codes of ethics are ignored by companies to get their desperately needed services.” A developer reported that he once wanted to expand his premises but it was difficult to get the building permit from the local government. The major did not ask directly for money but requested the repair of the roof of a public building. This was morally acceptable for the investor, since the public did participate from the improvement. In another location of his several businesses, the major asked him to repair a road that lead directly to a business, which was owned by the major. On the one hand, he did not agree because he did not regard this to be “acceptable” for him but on the other hand, he needed that special permit. So, he bargained with the major and finally, he agreed on paying the repair of a public school. He disclosed that “almost always, an agreement can be found, if the investor shows willingness and flexibility” and that “no one has to lose his face in doing so”.

Even a consultant working for a foreign NGO stated, that in former years, most of the bribes have been asked for personal gain; now, the majors ask for money upfront for building parks or playgrounds, repairing roads or funding schools. While she argued that on the one hand this is still corruption, she agreed on the other hand that “such a form of corruption is tolerable because it is comparatively transparent and helps society”. Her evaluation was supported by
other entrepreneurs who stated that “this would be a “win-win-situation” where also third parties like pedestrians walking around in nice parks funded with money collected in exchange for a small favour could benefit from” and they accepted “paying small bribes as a strategy in a country where sometimes even basic public services are difficult to get”. Even the owner of a restaurant, who in general avoids paying any bribes, tolerates a certain level of corruption, as long as the bribes would give a benefit to the citizens of El Salvador.

The owner of a conglomerate of businesses, who maintained to be very strict against corruption, admitted that it is sometimes absolutely necessary to pay small fees to get urgently needed permissions or papers from the government. He referred to the Pareto Principle and explained that “95% of the permissions can be achieved without paying any bribes, but in 5% of the cases bribing small amounts up to 100 USD are the rule”. The real estate manager added that labour unions in companies operating in his business parks are very corrupt. He knew that his tenants have to pay bribes, because otherwise, the unions would harm their businesses, which would be more expensive for them. Paying small fees to the unions were described by him as a kind of “cheap insurance for the companies, because the unions will help them to reduce occupational fraud and other crime in their companies.”

One interviewee added that a certain level of corruption will not harm society because it will not nourish additional corruption and it will help him “to grease the wheels” in doing business and to live a better life. This statement was supported by a manager who argued that “Although it would be better to avoid any bribes and to live with red tape and delays instead, therefore setting a sign against corruption, he has to take care of the family business and as a result cannot be that straightforward”. At least, he encouraged, that “one should tell people asking for bribes that they will harm their country and finally themselves when doing so”. Another manager explained, that paying a small sum of bribes to get special permits would be o.k. because otherwise, he would harm his business and “one has to be realistic, when doing business”. The owner of a trading office for steel accepted a certain level of corruption and occupational fraud in his company (i.e. the theft of office supplies, stationery, coffee or even toilet-paper for private use), because “these are small issues which are not
worth being controlled and have to be accepted”. He maintained that the theft of small items could prevent his employees from stealing more expensive things that would harm his business severely. And as a result, he stays with the “Pareto Principle” and does not prosecute small thefts but sees them as a cost for operating his business.

Even organizations fighting for transparency agreed, that “eliminating all corruption is utopia”, because people of El Salvador grew up with corruption and had to survive the Civil War in the 1990s. Therefore, “corruption is inside the people of El Salvador which results in a higher tolerance towards corruption in contrast to people living in Europe”. A German born businessman explained that on the one hand he does not tolerate a certain level of corruption within his company, but he sometimes gives fraudsters a second chance. 30 years ago, he found out that an employee had stolen merchandise. He gave him a second change and that employee never betrayed him again and did work for him as a trusted employee till he retired.

Four interviewees completely disagreed that a certain level of corruption and occupational fraud is acceptable. The president of a NGO stated that “the first step to fight against corruption is to fight against the thinking that a certain level of corruption is tolerated” so she maintains a zero tolerance policy towards corruption. Another entrepreneur did not want to live with a certain level of corruption because he wanted to protect himself, his family, his business and his friends from being harmed by corruption. He brought up the following questions: “What is a certain level of corruption? Will the level of tolerance towards corruption grow within time? Is a low level of corruption the seed for increasing corruption in the future?” and he disclosed, that “society will finally get the bill for even tolerating a certain level of corruption (e.g. poor infrastructure)”. He maintained that that it would be essential "to fight against corruption and occupational fraud immediately, so that there is no chance that these things will grow”. His view was supported by a multinational company, which in former years has been hit hard by corruption and therefore does not tolerate any level of corruption worldwide, because top management assumes that existing corruption can foster additional corruption. The compliance manager of that company explained that it would be too difficult for any branch
worldwide to decide, in which country which level of corruption is still tolerable. And as a result, the company does not accept the slightest level of corruption and occupational fraud worldwide. The manager of another multinational company disclosed that any form of corruption has to be eliminated because “bad examples of presidents, ministers and other governmental officials are contra productive to reduce the level of corruption in El Salvador” and that “such wrongdoing will directly insult especially the poorer parts of the population, which in general are very religious, do not bribe and try to maintain high ethical values despite their own, poor economic situation”.

4.2.5. Patience and being in a favourable position not to bribe

Ten interviewees agreed and supported being patient, because this is the most successful strategy in the long run. One of the interviewees, a native El Salvadorian who operates a conglomerate of businesses stated that patience would be always a good strategy to circumvent corruption. He owns a holiday resort for surfers at the beach. A few years ago, he has bought additional land at the beach adjacent to his lot, but separated through a small gravel road gaining public access to the beach. The owner wanted to buy that gravel road to have both lots connected. He explained that there is no need for that road, because people can access the beach via another path, which is located just a few meters away. He has been negotiating with the municipality to acquire that road for a long time, but they always postponed the decision and asked for money. In the meantime, the governing party was not re-elected; the new government increased the price again and some governmental officials even asked for personal bribes. The manager of the resort, whose main principle is never to bribe, denied. He offered donating money for public healthcare and supporting public schools in the area. However, the corrupt officers wanted the money for themselves and their political party. The owner stated that he will wait, till he gets the chance to buy that road. In the meantime, he is expanding his hotel on the existing lot. He advised German investors providing sufficient financial funds and allowing a realistic time schedule for the installation of their investment so that they will not be in desperate need to bribe.
Patience also helped other entrepreneurs from Germany to finally reach their goals without corruption. One entrepreneur was asked for a bribe, when he wanted to build his own warehouse. He refused and stayed in the rented space covering the time of the delays to get the permission to build. He stated that paying a few more months rent has been less expensive and more predictable than paying bribes, because he was not sure about "how much the bribes would finally sum up". Another company had problems in getting their equipment through customs clearance and obtaining several permissions to start their operations. Management did not speed up the process by paying bribes. This caused a delay of about 8 months and resulted in losses of almost 100,000 USD for the investor. This company was in a favourable position to back up its investment with additional funds from Germany. Finally, the owner asked the embassy of Germany to get things solved. The investor reported that the ambassador helped him "because he knew that this investment was "clean" and that no bribes had been paid". Both German investors advised that it is essential to back up a planned investment with sufficient funds and a realistic time frame, so that one can accept a few months of delays. They explained that otherwise, companies may face a situation where they have "to bribe to get things settled".

Sometimes, the expertise, the products and the reputation of a company can be helpful to avoid bribing. A German importer of sporting gear is a specialist in the trade of unique sporting equipment and explained that "the niche he is in and his expertise in that field gives him a competitive edge to get business with the government without bribes and reduces his risk of being involved into corruption". Another entrepreneur disclosed, that "in the long run, it is more important for companies to maintain a good reputation and to offer competitive prices, good products, superior quality and excellent customer service than paying any bribes".
4.2.6. Always following the rules

Three interviewees stated that one can protect oneself just by always following the legal and official rules. Some managers exporting to neighbouring Central American Countries stated that they never had any problems with customs, because they prepare their customs declarations very well, so, there is no need for them to bribe to get their merchandise through customs. The owner of a jewellery production who also operates an electroplating plant for jewellery had to improve his fire extinguishers, his exhausting system and the wastewater treatment of his plant. He fulfilled the requirements and passed the follow-up inspection without problems. As a result, he was not exposed to corrupt officers and he had improved the fire and safety situation for himself and his employees. He argued “that in the long run, that investment into improved equipment was less expensive than paying bribes on an annual base” and he feels comfortable, when the annual inspection takes place. In addition, he explains his customers, that the production of their jewellery has been taken place in a sustainable way, which is a USP for his products. A wholesaler for pharmaceutical products and cosmetics pays bonuses to the salespeople of his retailers for promoting his products. He also invites doctors and owners of beauty parlours for fun trips; but in doing so, he always “sticks to the rules and to the law” because in recent times, the government monitors such things very closely.

Three interviewees disagreed with this strategy and mentioned that they could not reach their business goals (e.g. winning the bids or getting special permissions) without bribing and therefore “they have to play the game to keep their business”.

4.2.7. Using intermediaries to do the dirty work and lobbying

Using intermediaries to do “the dirty work” for them is a business strategy for companies, which otherwise would lose any lucrative government orders to corrupt competitors. These companies on the one hand want to get a share of well-paid government business but on the other hand do not want to get involved into corruption. One manager explained that whenever he wants to sell goods to the government of El Salvador or within the MCCA (Central American
Common Market), he works together with agents who manage the business with these government agencies. He sells to the intermediate companies and they deal with the rest. He never asks “unnecessary questions” but is always happy to get the deal. The intermediates bribe the right people to obtain the orders, deliver the goods and collect the money for him. They get a fixed commission for providing this service and that commission is already included as an additional cost in the calculation of the sales price. This is the least expensive way for him, he admitted.

A wholesaler selling sports equipment to governmental institutions offers his bids not directly but involves a third party, which does the bidding process for him. He admitted that the intermediaries bribe the officials to get the tenders. He calculated that the intermediaries’ mark-ups are up to 300% on his price, because they have to pay the bribes. The “brokers” bribe the officials, deliver the goods and also collect the money from the government, because the collection process can take a long time, if the appropriate people are not well enough bribed. He disclosed that the intermediaries charge an additional fee for the collection of the money, but “¡Eso vale la Pena!” (It is worth it!).

Another strategy has been implemented by a pharmaceutical company. They, as well as other competitors have employed lobbyists in the public and in politics to influence decision makers (e.g. purchasing departments in hospitals, doctors, pharmacists and ministries). For example, lobbyists work to influence the decision makers to favour a special kind of package (e.g. glass tubes, bags or blisters) or the packaging size of the medicine. As soon as such specifications have been implemented into the purchasing specifications of hospitals, competitors offering another kind of packaging will be automatically driven out of business. Pharmaceuticals have to fulfil various medical and technical requirements, but lobbyists can help to favour specific products or companies. The commission for the approval of new medications and agricultural chemicals does not only consist of ministers and governmental officials, but also of representatives from the pharmaceutical industry and their lobbyists. As a result, it is very important for companies to have “trusted” people installed in these commissions.
4.3. How to avoid occupational fraud

The following figure summarizes the strategies disclosed by the interviewees to reduce or to eliminate occupational fraud. Their strategies will be discussed in more detail in this chapter.

Figure 10: Main strategies how to avoid occupational fraud

<table>
<thead>
<tr>
<th>Management</th>
<th>Control</th>
<th>Human Resources</th>
<th>Knowledge</th>
<th>Strategy</th>
<th>Organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Give a good example</td>
<td>control employees</td>
<td>Hire trusted employees</td>
<td>Know your business</td>
<td>Focus your business</td>
<td>four eye principle</td>
</tr>
<tr>
<td>Provide a good business climate</td>
<td>Control outsourced activities</td>
<td>Treat people well</td>
<td>Know where you are vulnerable</td>
<td>Downsize your business</td>
<td>Trusted people in key positions</td>
</tr>
<tr>
<td>Avoid grey areas</td>
<td>Control processes</td>
<td>Pay people well</td>
<td>Learn from past incidents</td>
<td>Certify the company</td>
<td>Job rotation</td>
</tr>
<tr>
<td>Insurance against unforeseen risks</td>
<td>Install technical equipment</td>
<td>Train people</td>
<td>Change strategy</td>
<td>Centralize critical functions</td>
<td></td>
</tr>
<tr>
<td>Written codes of ethics</td>
<td>Improve controls continuously</td>
<td>Strict prosecution of offenders</td>
<td>Outsource activities</td>
<td></td>
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Main strategy: “Tropicalize” the strategies to the cultural environment

Source: by the author

4.3.1. “Tropicalizing” the strategies to the cultural environment

All interviewees agreed that investors have to adjust their anti-fraud strategies to the social, cultural and economic environment of El Salvador. While this is done intuitively by native El Salvadorians, it has to be learned by foreign investors. The owner of a conglomerate of companies summarized, that “one has to “tropicalize” the activities to fight against corruption and occupational fraud, because a lot of strategies which work in the “first world” will not work in emerging market economies or in societies with a different cultural background than that of the investor”. The president of a governmental agency fighting against corruption stated that activities to reduce occupational fraud in
companies have to start by changing the culture in the families of the employees, since "this is the place, where people get the values for their life and unfortunately a lot of people grow up with corruption and occupational fraud as being a part of their daily life". However, she also admitted that this is outside of the scope of the employers and has to be accomplished during the educational process of the people. She advised that companies can help their employees changing their attitude towards occupational fraud by offering trainings with a lot of practical examples correlated to the daily life of El Salvador, so that employees understand the negative effects of their wrongdoing. The compliance officer of a multinational company added, that his company adjusts its anti fraud activities to the cultural and legal environment in which the specific subsidiary operates.

4.3.2. Hiring trusted people and installing trusted people in key positions

Employing well-trained and trusted people in general is the most important strategy to reduce occupational fraud when operating a business in El Salvador. Almost all of the interviewees stated, that one needs to hire trusted people and must install trusted people in key positions to reduce occupational fraud in organizations, because it is almost impossible for top managers and owners of companies to control all business activities without support from trusted people. One manager stated, that “the enemy comes from inside the company” and therefore, it is essential to employ honest people in the company, which support him to uncover wrongdoers. In addition, key positions like accounting, warehousing, IT or purchasing have to be filled with very trusted managers or family members. The wholesaler of steel explained, that “he counts his warehouse twice a year and no major discrepancies have come up the last few years, because the warehouse manager is a trusted person, who himself employs and supervises trusted people". The owner of a restaurant has a very low rate of fluctuation and the damage caused by employee theft in his restaurant is negligible, which is very unusual in the restaurant business. He explained that he has a “trustworthy number of people who work since many years in the restaurant”, because he hires trusted people, treats them very well, and pays them well (he leaves the tips with the employees and does not charge
them for broken dishes). The majority of the interviewees pay their employees very well and take care, that they stay long with the company. However, one manager objects that employing trusted people for a long time in key positions can also be a threat, because “it is difficult to control them since they know any hidden weaknesses in the company” and “the longer an employee stays in a company, the lower is the level of control for that person”. The importer of machinery, who grew up in Germany, has employed German managers that are very trustworthy because they have a similar cultural background. However, he explained that also well-educated El Salvadorians (some of them went to Universities in the USA and therefore have been experienced another culture) have a lower propensity to betray him because they earn good money in his company, so they do not need to commit any fraud.

A lot of the companies stated, that it is difficult for them to find skilled, qualified personnel, which fits into the position, because the labour market is considerably small and the educational level of prospective employees is considerably low. Due to the fact, that “El Salvador is a small country where everybody knows each other, there exist few secrets about a potential employee in the market” stated a former manager of a chemical company. Most of the applicants bring with them a personal recommendation from business partners, friends or trusted employees and managers also recommend people to other companies. “Personal connections are very important in El Salvador and if someone has failed, the word will spread out quickly and he will be burned for the rest of his life.” disclosed the importer of sporting goods. Getting a new job without a letter of recommendation is very difficult, reported one of the interviewees. When the daughter of his housemaid desperately needed her first job, he helped her, because otherwise, she would not have been able to find a job. However, the managers of a NGO objected, that “personal recommendations are not always a panacea for companies to hire trustworthy people” because one could be influenced by the recommendation letter and neglects profound crosschecks of the applicant. Sometimes, the applicant is not the best choice for that specific job even with a fine recommendation.”
All employers reported that the CV’s of their applicants are properly scanned and cross-checked and that former employers as well as third parties are asked for references to verify the CV’s. In depth cross checks are essential for all of the interviewees, because the quality of the application forms and the CV’s are in general very poor or are even faked. The majority of managers and their HR departments ask applicants for their “solvencia” (certificate of conduct) and a “solvencia policia” (police clearance certificate) and some of them even scan the applicants’ credit history. The level of background checks increases with the intended level of occupation for the applicant. While some of the companies apply a polygraph test or a voice stress recording test during the interview, others objected, that “this would offend good people and especially high level managers in a country, where skilled people are scarce anyway”. Therefore, one company applies the polygraph testing just for lower level employees like warehouse workers or production personnel. A HR manager admitted that he is not satisfied with the tests, because skilled applicants could train how to cheat the polygraph. However, he still applies the polygraph test, because “at least, it has a deterring effect on corrupt applicants and fraudulent employees”. Another manager prefers voice stress recording tests, because these tests are more reliable than the polygraph testing. He explained that “applicants who have to pass the polygraph test in general know where to buy pills, which can help them to pass the polygraph test”. The wholesaler of steel, who lives in El Salvador for more than 50 years, disclosed that “he has a gut feeling when hiring people and about corrupt people in his company, which is based on his long work- and life-experience in El Salvador”. He does not employ any apprentices or trainees, because he once had a bad experience with a trainee, who stole some of his business secrets during his training his training in the company and then started working for a competitor.

The owner of a conglomerate of companies is a religious man. The majority of his managers are also church members and so, he knows them very well and trusts them. These trusted managers recruit their staff mainly from his parish. “Based on their strong religious belief, such employees are less prone to corruption and occupational fraud and there exists a high degree of peer control among them, because they meet twice a week for the Mass.” the owner argued.
He recommended hiring educated, skilled and smart people, which are in general less prone to corruption. However, he also admitted that there is a second side of that medal, because “corrupt and smart people can hide their wrongdoing better than corrupt and dumb people”. He summarized that one has to be aware that a certain risk of corruption and occupational fraud cannot be avoided when employing and managing people, because “one has to deal with individuals and not with machines”. As a result, even the most sophisticated checks will not completely insure managers from hiring “bad apples”. The owner of a gas station reported, that he once had hired a corrupt manager, who betrayed him during the application process with a faked resume. He employed the manager and did not control him properly when the corrupt manager hired new people. The corrupt manager replaced good people step by step with corrupt friends and finally, there grew a big “basked of bad apples” in the gas station. Since then, a single manager is not allowed to hire a complete team without the approval of the owner and the teams have to consist of a mix of new hires and already trusted people to maintain a certain level of peer control and to maintain a healthy mix of employees.

4.3.3. Knowing one’s business and its processes

All interviewees explained that it is essential to know one’s business, because this will allow managers to evaluate where they are vulnerable and finally to implement successful strategies to avoid occupational fraud. One interviewee illustrated, that he once was operating a coffee plantation and got the chance to buy a travel agency for a good price. He did not know the processes in the travel agency very well. As a result, he did not personally work in the travel agency but let the business run by “trusted employees”. They betrayed him, because he did not know, how to implement proper controls. Even his accountant was not able to detect any fraud in the beginning, because the accountant did not know that kind of business either and he just came in for an audit twice a year. When both of them found out, that the company has been betrayed, it was almost too late. Finally, the owner sold the business suffering a big financial loss and learned “that it is essential to know ones business, its
processes inherent as well as its weaknesses and its numbers”. In contrast, he possesses profound knowledge in his coffee farm and therefore was quickly able to detect, that one of his managers betrayed him by stealing fertilizer for his private plantation. The owners of a hotel have developed a sophisticated system to check if any food is stolen in the kitchen or taken away by their service personnel. They described, that they have calculated the exact quantity of food needed to prepare a serving including the scrap. At the end of each week, they cross check the quantity of food and the expenses for the purchases with the servings prepared and the turnover in that week. They disclosed, that this procedure “not only allows them to detect any theft, but also helps them to calculate accurate prices for their menus more or less in real-time”.

Some entrepreneurs explained that they know their business very well, since they have learned from past incidents. One manager has once been betrayed by his accountant and now, he undertakes random checks in the accounting department and “he knows where he has to look for”. His strategy is supported by other managers who stated, that especially in the accounting department, one has to watch for red flags “because sooner or later red flags resulting from corruption and occupational fraud like a low profitability will pop up in the accounting numbers”. The majority of entrepreneurs have developed sophisticated measures based on their specific knowledge that help them to detect any corrupt activities in their companies. The owner of a conglomerate of small businesses stated, that it is very important for him to control accounting numbers like turnover, cost of goods sold, gross margin and overheads because in doing so he can discover corruptive activities very easily. He asks his accountants to prepare these numbers very quickly each month and he benchmarks the numbers within his companies. “To be able to develop such controls and measures requires knowing one’s business as well as the whole industry very well.” disclosed a consultant.

Profound knowledge can also help evaluating and redesigning processes with respect to the exposure to corruption and occupational fraud. “However, the evaluation and the design of transparent processes without red tape require that management knows its business and possible weak areas very well” added the director of a governmental organization fighting against corruption. Another
manager admitted that he has not systematically analyzed, where his companies are vulnerable, but he knows his business very well. He does not sit in his office but walks around in his companies and asks his employees what they are currently working on. This helps him to better understand the business processes and gives him the chance to uncover fraudsters. He advised that an organization has to understand not only its own business but also that of all companies involved in the value chain like suppliers, agents or customers.

Sometimes, management has to be very deeply involved into daily business processes to develop successful anti corruption controls. The owner of a pharmacy chain analyzed, that the reimbursement of coupons in former years allowed his employees to betray him, because they were able to deduct the discounts from the sales price without authorization and put the discount in their own pockets. Based on this knowledge, he has implemented a reporting-software in his electronic cash registers, where all price changes or discounts can be traced, so that no unauthorized discounts are possible. He also found out, that in his manufacturing facilities for cosmetics, employees stole raw materials and packaging materials separately, smuggled them out of the factory in backpacks or black trash bags, “reassembled” them into finished products and sold them on the black-market. He disclosed the gap by not allowing employees to bring backpacks with them and replaced black trash bags with transparent ones, so that any stolen items are more visible by his guards.

4.3.4. Paying and treating employees fair, training them and taking care of them

This strategy is regarded as being a key strategy for almost all entrepreneurs, because it can foster loyalty towards the employer by releasing the burdens and the problems of everyday life. It is a very successful strategy to avoid corruption and occupational fraud in the long run, because it directly changes the attitude of potential fraudsters and can take away financial pressure.

All employers stated that they pay their employees well above the minimum wage that is currently 224 USD, while they pay on average about 400 USD for low level jobs. The companies also pay for the social security and some of them
offer bonuses, pay fringe benefits and reimburse tuition fees for their employees. “Smaller companies, especially in the informal sector, are not able to afford such expenses and therefore have to live with a higher rate of occupational fraud in their companies” stated the president of a local chamber of commerce. He explained that especially German owned companies are renowned for treating their employees very well, paying them well and paying the social security for them, which is not the rule in El Salvador. He disclosed that “German companies just apply the same standards like in Germany with respect to payment and treatment of their employees and in exchange experience a lower level of corruption and occupational fraud in their companies.”

A private person, who employs a local “muchacha” (a housemaid) from the countryside, stated that good payment is essential, because “whenever a person is in desperate financial need, that person will take any opportunity to escape that uncomfortable situation”. Muchachas work in environments that are well above their own standards of living, so it is important that these employees earn enough money, so that they will not become jealous, because jealousy can be a driver for occupational fraud. The owner of a restaurant added, that “treating his employees fair and leaving the tips to them is essential in his business, because otherwise, he cannot expect a good service for his customers”. Another interviewee stated that the treatment of his employees has to fit into the culture of the people of El Salvador. He explained that small gifts are very important in El Salvador because this is a part of the local culture. The agent for shipping lines has introduced “special days” for his employees. For example, once a year is the “day of the secretary”, where each secretary gets a small present and a half day off with full payment. However, even some of the supporters objected, that good payment and other fringe benefits do not automatically avoid occupational fraud if there are bad apples among their employees or people are in desperate financial need to betray their employers.

The majority of companies offer trainings to foster a professional as well as a personal growth of their employees. Some employers pay the fees for evening classes for their employees, because “investing into his employee’s education can help them to get better jobs and to reach higher positions in his companies
so that they can earn more money and do not need to betray him" stated the owner of a conglomerate of companies. He argued that training his employees is necessary, because in general, the level of education is low and each company has to support its employees so that they will be able to fulfil the company's specific needs. Some interviewees reported that, in addition to a professional training, it is important to teach employees, how they can grow personally. The owner of a wholesaling company coaches his employees on a monthly base how they can stay healthy and how they can successfully manage their own life. Two other managers have lately invited bankers to train their employees how they to manage their personal finances without getting indebted, how to budget their private expenses and how to use a credit card without falling into tremendous debts. One of the managers disclosed, that "such trainings help his employees to avoid financial trouble which makes them less prone to corruption and occupational fraud and supports them managing their private live". In addition, some employers help indebted employees to get a loan from the bank or to get better rates for their loans. "Helping employees who have private problems or are in desperate financial need" is also essential for another interviewee, because people in such a situation suffer a high pressure and the probability to betray him is very high. When they have to lay off personnel, some companies offer generous severance payments well above the legal requirements, so that these people can cover the time till they find a new employment. One manager explained that "governmental social security is very scarce and such a big-hearted severance payment is a kind of insurance premium against the theft of goods or business secrets by leaving employees".

While a lot of companies offer professional trainings, just a few companies train their employees with respect to reduce corruption and occupational fraud. "All new employees will get an intensive one day training about corruption, codes of conduct, ethics and compliance; this training is done worldwide but the contents of the training is accustomed to the Central American Culture", stated the compliance manager of a multinational company. The employees have to refresh their knowledge on an annual base and have to sign a renewal that they will follow the codes of conduct within the company. The compliance manager reported that, at the beginning, the anti corruption training was not well
accepted among his employees, but now, the employees begin to understand why avoiding corruption and occupational fraud is very essential, because "the training includes a lot of practical examples from El Salvador and is adjusted to the culture of this country."

Several companies have established cooperatives, where their employees can get loans or can save money for rates, which are more favourable than offered by commercial banks. Some cooperatives support indebted employees when their credit scoring is too bad to get a loan from the bank and help them bailing out when they are highly indebted. In addition, the cooperatives bargain special rates and discounts for their members e.g. when they want to buy a TV set and some of them even organize travel and vacations for reasonable prices. One of the interviewees has bought a cottage in the countryside, which he rents out for free to his employees. The wholesaler of drug and cosmetics has opened an internal counter for his employees where they can buy medicine and cosmetics at very favourable prices. The interviewees who operate cooperatives reported that the majority of their employees are members of these cooperatives. The managers calculated that the investment and the effort in maintaining a cooperative pay out very well, because employees are less prone to commit fraud. "His employees are well aware that they will be fired and will no longer enjoy such fringe benefits when their wrongdoing would be uncovered" disclosed the manager of a freight forwarder.

4.3.5. Strictly prosecuting offenders

All interviewees stated that it is essential to strictly prosecute offenders, because this would show any prospective fraudster, that his wrongdoing will have negative consequences for him. The interviewees made it clear, that there exists zero tolerance in their companies with respect to corruption and occupational fraud and that any perpetrator will be fired immediately. The owner of a real estate business reported that he strictly prosecutes offenders and "that management just has to be strict in fighting against corruption which will help them to prevent their employees from being corrupt". He admitted that he has a certain tolerance towards mistakes (e.g. if a janitor breaks something, the janitor
will not have to pay for the damage) but there exists zero tolerance towards corruption and occupational fraud and that offenders are immediately fired “to set a sign”. Strictly prosecuting offenders is also necessary which is influenced by the cultural and social values in El Salvador. One manager found out that a salesperson has betrayed him with faked invoices. He described that the sales price of the copy, which was kept in the bookkeeping department was lower than the original of the invoice. The fraudster then collected the higher amount from the customer, forwarded the lower amount to the accounting and kept the difference. When the manager found out about this, he immediately threw out the employee. He argued “not firing that person immediately would have resulted in a loss of his personal reputation as a manager in front of his employees. Due to the fact, that El Salvador is a very small country and that words go around quickly, his reputation would be damaged in front of his customers, suppliers and even among competitors.”

While most of the supporters would fire fraudsters immediately, some of them have displayed a certain tolerance against first time offenders. They explained that fraudsters will get a written warning for a first time offence, are closely observed and will be fired, when any incident will happen again. The owner of a tire repair shop stated that he accepts one mistake, but fires that person when the same mistake occurs again. He is a very religious man but excused such a strict behaviour because "he has to protect his company from weak or fraudulent employees, which are also a threat for other employees, since wrongdoers lower the morale in the company, reduce the productivity and harm the company financially, which can result, that even loyal employees lose their job." Two bigger companies have implemented an ethics commission. Whenever a case of corruption or occupational fraud comes up, the ethics commission, which consists of the CEO, trusted managers, the compliance officer and a spokesperson of the employees will decide about that case.
4.3.6. Controlling employees and continuous controls within the company

Twenty interviewees agreed that it is essential to control employees and to implement various controls within the company to avoid occupational fraud. Some of them added that companies must regularly evaluate and adjust the controls, so that they are always one step ahead of the fraudsters. The companies which have implemented internal and external controls have undertaken a cost-benefit calculation for their controls and agree that the controls are worth it. Just one of the interviewees admitted, that he does not control his employees very strictly. He owns a restaurant and argued that strict controls are de-motivating people; they are contra productive to a good working climate and will finally lead to a poorer service for his guests. He stated that the level of occupational fraud will increase with the level of controls and that “it becomes a sportive game for employees, how to circumvent the controls”.

Several interviewees summarized the importance of controls with two popular sayings in El Salvador: “En arca abierta hasta el Santo peca” – in front of an open vault, even a saint will sin and “Puerta abierta al Bueno tienta” – an open door will lead even a good guy into temptation. For them, checking their employees and their processes is essential to successfully operate their businesses in El Salvador. According to a consultant, regular external and internal audits are absolutely necessary to reduce corruption and occupational fraud. The president of a government agency added that “it is not enough to establish rules, ethical values and guidelines, but one has to implement strict controls and harsh consequences for offenders, so that these rules are followed”. One entrepreneur complained, that smart people know every trick to betray him and that strict controls are inevitable. As a consequence, he recommended that trusting people is not a good idea and described his strategy as “I trust my people – that is why I control them”.

One interviewee advised that “managers should walk through the company with open eyes, checking business operations and always questioning any irregularities or unusual activities”. He, as well as other managers recommended that controls have to be implemented and monitored by top management or a compliance manager. However, the majority of the
companies explained, that they do not have installed a compliance manager
due to their small size, so the compliance management is done by top
managers or the owners. Others explained that a compliance manager would
be contra productive and would spoil a good business climate. However, the
manager of a multinational company opposed this view. He reported that his
employees see "the compliance officer not as a policeman or spy in the
company but more like a friend, who helps them to accomplish their goals".

All managers undertaking controls agreed that controls have to be undertaken
by trusted employees or externals. Some managers audit their companies with
the help of externals e.g. their accountants because in general external auditors
are very skilled to detect fraud and are less "narrow sighted when undertaking
the audits". However, one interviewee objected that internal auditors are the
better choice, because "they know the business, its processes and the parties
involved better than people from outside". Internal auditors have to be randomly
checked with respect to overriding the controls because otherwise "one gets
stuck in a vicious circle" the proprietor of pharmacies stated. The owner of gas
stations reported, that he maintains a good relationship with the local police,
offers policemen coffee for free and allows them to use his bathrooms. As an
exchange for these favours, the policemen help him to check his employees
and even volunteer to work as hidden spies in his business to cross check his
employees and to test his implemented controls.

The majority of managers stated that, due to the small size of their companies,
there exists a high level of peer control among their employees which helps
them to reduce occupational fraud. One manager added that additional peer
control exists in his companies, based on the fact that the majority of his
employees are very religious. This attitude prevents them from committing fraud
and encourages them to convince peers behaving in the same way. Peer
control is also essential for another interviewee, who reported, that he once had
employed an accountant, who was not very well loved in the company. Most of
the employees in the company avoided any contact with the "loner"; due to the
lack of peer control, the accountant had been able to embezzle money. The
manager who has been betrayed, admitted that he had "completely ignored the
red flags in this situation" i.e. a loner in a critical position lacking any peer
The real estate manager explained that he looks for red flags; if an employee spends more money than his salary would allow, he starts an investigation. However, he also objected, that this is sometimes very difficult, because "corrupt people are in general smart enough to hide any additional income and they know, how to spend their haul without attracting attention".

Another interviewee advised that one has to consider the cultural and legal environment of El Salvador, when implementing and executing controls. For example, controlling employees in front of peers is not a good idea, because people will lose their face in the company. He controls people separately and cross checks his employees through third parties without attracting attention e.g. he asks truck drivers of his external freight forwarder by chance, if there is a word around, that any of his employees have received kickbacks. While some companies overhear the telephone lines of their employees, which is legal in El Salvador, the compliance manager of an international company denied doing so, because this would collide with the ethical values of his company.

The owner of a jewellery production checks the stock keeping with two independent IT-systems and he has invented very smart controls to reduce the loss of gold and gems during the production process: whenever a goldsmith has broken a gem, he has to return the broken gem and the gold completely in exchange for new raw materials. All goldsmiths have a "gold account", which is checked each month. The owner explained that "The raw gold is weighted when it is handed out to the goldsmith. The jewellery inclusive its scrap is weighted again, when the goldsmith returns the finished jewellery. Based on past experience and calculations, the percentage of missing gold should not exceed a certain percentage of the weight". The owner of a conglomerate of companies illustrated, that his controls mainly focus on financial results like costs of goods sold, margins and overheads. He stated, that these three factors "allow him to detect and to control corruption and occupational fraud very easily and quickly because "red flags caused by corruption and occupational fraud will finally pop up as poor accounting numbers". He therefore asks his accountants to prepare these numbers quickly at the end of each month for all of his entities, so that he can benchmark his various businesses with respect to profitability and the potential damage caused by corruption and occupational fraud.
Additional critical functions, which have to be continuously controlled, are accounting departments and salespeople, because both of them deal with invoices, goods, cash and cheques. According to the majority of entrepreneurs, purchasing and marketing departments are also prone to occupational fraud in the form of kickbacks, gifts and other favours from their suppliers. All of the interviewees reported, that they do not allow their employees to accept any gifts or kickbacks and the majority of them require at least three quotes for each purchase. Some businesses explained that purchasing is done by trusted family members. Other companies stated that bigger volumes have to be approved by trusted top managers and employees have to explain, when they do not favour the lowest offer. In addition, each payment to a supplier is cross checked with the purchase order, the delivery note and the invoice.

Without exemption, the premises and especially the warehouses of the companies are guarded 24 hours, 7 days a week. The majority of companies have employed external security guards, since the management of internal security personnel is very time consuming e.g. regular background checks. The real estate manager explained that there exists a lot of job rotation among the guards, that each guard has to be trained in handling a gun and that it requires a lot of red tape to get the permission for owning firearms. As a result, he has installed external security guards and "so he does not have to deal with these problems and he gets reimbursed by the security company, when a guard has stolen something – which is unfortunately the rule and not the exemption, because security guards are not very well paid and therefore a lot of security guards are corrupt." The owner of a cosmetics production added that external security guards which are regularly rotating prevent his employees from becoming friends with them and therefore reduces the risk that both of them cooperate and betray his company.

The interviewees which have implemented internal and external controls have also undertaken a cost-benefit calculation and agreed that employing additional internal or external auditors or counting their stock frequently is a good investment. The importer for machinery brought it to the point: "Personnel are not very expensive in El Salvador, so, it is worth employing additional people to control others and to make regular checks in the warehouse". One of the
interviewees has calculated that the overall cost for all these controls and safety issues sums up to about 3% of his overheads, which is o.k. for him. Yet, he complained that “these expenses are like an additional tax, because the government, which is paid by his regular taxes, does not do a proper job”. A multi-national company complained, that smaller companies, which spend less money for such controls have on the one hand lower operating costs but on the other hand a higher propensity to bribe. Therefore, they can bypass honest companies in getting business in the short run. “However, in the long run, customers will favour buying from a “clean” company and finally, smaller companies will be forced to implement more controls and higher anti-corruption standards to stay competitive” disclosed the anti-corruption manager. He summarized, that being more or less free of corruption is a USP (Unique Selling Proposition) for his company and highly distinguishes it from competitors; such controls also have improved the quality of the products (e.g. no missing parts) and resulted in lower production costs (lower costs for the materials based on a reduced loss by theft) for the company.

4.3.7. Learning from past incidents and continuously updating strategies

18 interviewees have learned from past incidents and as a result have implemented or adopted their strategies with the help of that knowledge. Several supporters mentioned that it is difficult for them to be always one step ahead of a perpetrator and described this as a “cat and mouse game”. An external consultant added that implementing and maintaining controls would be a vicious circle. As soon as one has implemented new controls, people try to circumvent them, so one has to improve existing controls continuously. One interviewee stated that “Fraudsters are very adaptive and creative. Nothing is impossible and people will always find ways to betray you in a manner, you would never have imagined.” The manager of a chemical company experienced that as soon as one has detected and eliminated a weak point in the company, employees will find another strategy to circumvent these implemented controls. His strategy is to continuously learn from past incidents because the “whole game is always being one step ahead of the offenders”.

116
During the interviews a broad range of examples came up, how entrepreneurs have been betrayed by their employees. One company was once in big trouble, because their warehouse suffered from a high rate of theft. The owner randomly checked his people, when they left the company but did not find any stolen goods. In the next step, he employed a special task force of auditors, which randomly controlled employees, audited departments and counted cash and stock. However, he admitted, that the auditors have not been skilled enough to find the perpetrators. Finally, he has infiltrated undercover agents as employees and was able to find the “leak”: smart employees put the stolen goods into black garbage bags, waited in front of the company, till the bags have been stacked on the streets for the garbage collection and took out their prey. The owner replaced the black bags with transparent ones whose contents were clearly visible. The owner of a trucking business found out, that his drivers have stolen diesel from the tanks of his trucks. First of all, he locked and sealed the lids of the tanks. However, skilled truckers sucked the diesel by opening various release screws and valves within the fuel system. As a result, he placed paint marks on these screws and valves to stop the theft. The owner admitted, that the fuel systems of trucks are very sophisticated and therefore are not easy to control and truck drivers continuously found new leaks to steal the diesel. Finally, he completely switched his strategy and started offering his drivers a premium for achieving a higher mileage per gallon than calculated by his fleet manager. In addition, he installed GPS (Global Positioning System) in all of his trucks, which helps him to calculate the exact mileage per gallon. He explained that GPS allows him to track his drivers if they have made any private trips with the trucks or if they “have taken a nap during working hours”. The system has software included, which allows his fleet managers to optimize the daily trips for each of their drivers based on past tours and the latest traffic news. The GPS also helps him and the police to track his trucks when they are high jacked. He summarized, that the implementation of such new technology was really worth it, because it helped him to reduce his operating expenses considerably in many ways and purchasing GPS became less expensive than a few years ago.
4.3.8. Installing organizational and physical issues and external consultants

18 entrepreneurs have implemented organizational issues, physical controls or have asked external consultants for help. Most of these entrepreneurs have done a cost benefit calculation which favours the implementation of such strategies. One of the companies has implemented the four eyes principle and asks for the authorization of critical issues by different departments: one from the technical department and another from the finance department. Smaller, family owned companies explained that they require the authorization by a family member or a trusted employee, when the purchase volume exceeds a certain limit. The owner of a conglomerate of companies has separated power and control where applicable and he always tries to build up additional hurdles and controls to reduce occupational fraud. Three companies producing chemical and pharmaceutical products protect their secret production formulas and production processes by sharing this knowledge with just a limited number of employees. They explained, that “everyone gets exactly the information he needs, but not more” and that “just a few trusted people have access to the complete knowledge – the rest of the employees just know fragments, which are worthless to sell to competitors”.

The owner of a chain of pharmacies has installed security guards in each pharmacy. The guards welcome customers, protect the shops against robbers and observe customers as well as employees with respect to shoplifting. The pharmacist reported that his customers are very smart in shoplifting. The guards, as well as surveillance cameras and special mirrors help him to detect shoplifters and “to give his personnel a good feeling of being protected”. The owner of several gas stations explained that his cashiers have to drop any excess cash in their cash registers through a slot into a built in vault. The cashiers cannot open the vaults themselves. If the shop is robbed, the maximum loss is limited to the remaining change in the cash register. He argued, that any information for potential robbers mostly comes from insiders in his companies and by installing vaults in his businesses “the words goes around very quickly that there is only little cash available in the cash register”. Other companies avoid cash deals in general, since they bear a risk of embezzlement.
A trucking company has installed GPS on their trucks. The "ruteros" (truck drivers) can send an alert, when they are high jacked or robbed. The fleet manager summarized, that GPS helps him in many ways: (1) to plan the routes for each delivery van (2) to know exactly, where the truck is located (3) to avoid that ruteros take longer breaks / absenteeism from work (4) to track the truck, if it is high jacked (5) to control the gas consumption based on the routes driven (5) to calculate in advance when the truck has to be serviced (6) to know, where and how to circumvent dangerous areas and (7) to avoid, that the ruteros make deliveries for their private business. According to the fleet manager of the company, the risk of occupational fraud has been reduced almost to zero.

All of the companies interviewed have employed guards 24/7 to protect their premises. In addition, the premises are secured with burglar alarms, surveillance cameras, armed doors and barred windows. Sensitive functions like IT, HR, warehouses and accounting are located in secured areas with restricted access. Entering the premises for many businesses requires ID checks at the entrance gate, electronic keys for the employees and some of them even test visitors with respect to weapons, cell phones, cameras or laptops before they are allowed to enter the premises. Especially bigger companies have centralized sensitive functions like IT, check the IT systems regularly, make back-up tapes, check the E-Mail accounts of their employees regularly and restrict access to the IT and to the Internet with passwords or security cards. However, some managers admitted, that "although sophisticated IT and technology has reduced the threat of corruption and occupational fraud, it is almost impossible to maintain a 100% security level".

The majority of companies do not work together with external consultants to evaluate and to reduce their risk of exposure to corruption and occupational fraud. They argued that "they know very well where they are weak" and therefore do not need help from externals. Just the owner of a trucking company explained, that he has worked together with a technical consultant to reduce his costs of operating the trucks like buying trucks with fuel efficient engines and by optimizing the repair costs for the trucks. During his work, the consultant also uncovered that some of his "ruteros" cooperated with corrupt mechanics in the maintenance department. Since then, the owner has changed
his mind and advised entrepreneurs working together with external experts. He summarized, that "This is less expensive than anticipated, because such professionals have a broad knowledge in their area, which justifies their considerably high consulting fees and they offer insights, one would not have taken into consideration without external help."

4.3.9. Implementing written codes of ethics

While 13 interviewees stated that implementing written codes of ethics can help companies to reduce occupational fraud, just 10 of them have really implemented them. A consultant helping governmental institutions to foster transparency explained, that "establishing internal rules and principles within the organization and implementing a culture of ethics, respect and transparency are essential to reduce corruption and occupational fraud in companies". In general, especially bigger and international operating companies have implemented written codes of ethics, which also have to be acknowledged and supported by their suppliers and subcontractors. Most of them have included very detailed codes of ethics and guidelines of behaviour into the employment contracts of their employees, so that these codes avoid any "grey areas of wrongdoing".

The president of a NGO advised that "it is not enough to set up written rules and codes of ethics, but a company has to take care, that these rules are followed in reality, because otherwise, they are worthless". A consultant stated that it is sometimes difficult for employees to understand these written codes of ethics and to follow them. She recommended that employers have to explain the regulations by using "illustrative examples from reality, because bare theory is not well suited for poorly educated people within another cultural background than that of their employers". However, implementing written codes of ethics is not always a guarantee to avoid corruption and occupational fraud. One interviewee, who worked in former years as a sales manager for a big American company admitted, that on the one hand, he had to sign and to follow the codes of ethics but on the other hand he was urged to fulfil his sales goals and to generate new business, which in some cases required bribing. Finally, he
circumvented these codes of ethics by employing agents and consultants, which have done the dirty parts of business for him and got a commission for their service. In doing so, he kept a clean west, achieved his sales goals and finally received his annual bonus.

The majority of smaller companies have not implemented any written codes of ethics, but some managers explained, that “everyone in their company knows the informal codes of ethics, which have to be followed”. The wholesaler for steel disclosed, that “there is no need for him to implement written regulations regarding the spending of money for leisure and entertainment because his company is very small and whenever a customer will be taken out for lunch or entertainment, at least one member of the his family is attending such an event and so, no misappropriation could be done”.

4.3.10. Working together and benchmarking with others

13 supporters of this strategy worked together with trusted friends or business partners, but some of them objected that the biggest problem would be to get honest answers from others, because peers are very concerned about losing their reputation when telling about corruption and occupational fraud existing in their organizations. A lot of the companies interviewed were family owned businesses. Their owners take care that no internal information gets outside of their companies and they do not see a benefit in working together with other companies, because “they do not expect getting true and open answers during such workshops, but just wasting their time”. They excused their attitude with an expected outcome, that prospective peers would not openly admit any mistakes and weak points, because this could harm their reputation. This behaviour is based on cultural issues like “machismo” in El Salvador and other Latin American Countries.

The compliance manager of an international company explained, that his company works together with the government as well as with other organisations like the TEG (Tribunal de Ética Gubernamental) and he attends conferences like the Anti-Corruption Conference for Central America and the Dominican Republic held in El Salvador in 2011. His management also
promotes anti-corruption activities outside of their business. Therefore, "his company benchmarks with other companies in El Salvador, Central America and the Caribbean and he works together with customers, clients and their compliance officers as well as other stakeholders to reduce the level of corruption and occupational fraud in general". The owner of gas stations networks with peer managers in the gas station business. In addition, he is a member of a local business circle. Next to discussing general management topics, they develop strategies how to prevent corruption and occupational fraud in their companies. The owner of a conglomerate of companies and his managers benchmark anti corruption strategies among the group members but not with third parties, because they do not trust managers outside of their group.

4.3.11. Maintaining a good business climate

All interviewees felt that the business climate in their companies would be good or even very good. Some of the companies have evaluated their working climate with the help of externals or they have taken part in local contests like "the employer of the year". One company even took part in a contest evaluating the working climate in Latin America and the company graded very well. Maintaining a good business climate is for many companies an appropriate strategy to avoid occupational fraud in their organizations. In addition, a good business climate will make their companies more attractive for prospective skilled applicants, which are very difficult to find in El Salvador.

The owner of a conglomerate of businesses, who is a religious man, explained, that due to the fact that he employs a lot of people from his church, "Everyone applies the same standards how to treat each other, which results in a very good and honest working climate in his companies". Other companies improve their working climate e.g. by undertaking trips with their employees or in organizing regular barbecues with them and their families. A manager explained that such events do not only improve the working climate in his company but also give him the opportunity to talk about private things with his employees, which helps him to manage the operations in a better way and to look for red flags. For the manager of a hotel, maintaining a good business climate is
essential, because “just happy people are offering a good service to the guests”. Other interviewees explained that “a good business climate helps them to reduce the turnover of personnel, which is very important in a country, where skilled personnel is scarce”. The office manager of an agency for sea transportation reported, that his company is well renowned for its good business climate. His good reputation helps him to attract a high number of skilled applicants, who want to work for him explicitly for that reason.

However, some interviewees advised that one has to separate maintaining a good business climate from being too close with one’s employees, because this could be misunderstood by the employees (based on a different cultural understanding), which could result in being betrayed by them. One manager explained that he once paid the tuition fee for a low level employee and had invited him for regular dinners; as a result the employee felt free to betray him. Since then, he keeps a “healthy” distance to his employees and treats people based on the local cultural environment.

4.3.12. Focusing and streamlining the business

Focussing and streamlining the business and eliminating unnecessary positions helps 8 organizations and their managers to keep their structures simple and transparent. In doing so, they have been able to reduce the propensity of being betrayed by their employees. Four supporters added that downsizing a company and keeping it small can be helpful, since this allows managers to supervise their operations in a better way. Two consultants stated, that “It is essential to reduce any opportunities for people to make easy money. Making easy money is a threat for all organizations, because this is always the preferred choice for employees instead of working hard for their money. A good way to reduce such opportunities can be accomplished by reducing unnecessary positions in the company, to avoid discretionary power in key functions and to streamline processes”. Another manager advised that “Efficiency is the best way to reduce corruption and occupational fraud because efficient processes make it difficult for fraudsters to operate”.

123
4.3.13. Downsizing the business and keeping it small

The importer for machines and tools from Germany founded and expanded his business for several years, started selling additional product lines and opened several new businesses and locations. A few years ago, he started downsizing his business, eliminated unnecessary products and focused on just a few main product ranges. He explained that the positive results helped him to reduce corruption and occupational fraud in his company in various ways and summarized them as follows:

- His business became more transparent and therefore easier to manage, since he has to focus on fewer products, suppliers, people, markets and financial numbers. As a result, it is now easier for him “to watch for red flags everywhere in the company”.
- Fewer suppliers and fewer products allowed him to control his purchasing department very closely and now, he can detect kickbacks and embezzlement better and faster than before.
- His salespeople have to manage fewer customers; however, the quality of the remaining customers has increased, so the propensity of bribing them to get the orders is reduced. In addition, he can control his salespeople better with respect of paying kickbacks, issuing faked invoices and the embezzlement of his accounts receivables.
- He was able to eliminate unnecessary positions, therefore reducing the chance to employ “bad apples”.
- He has to cover fewer overheads. As a result, the sales prices of his products became very attractive and there is no need to pay additional kickbacks to get the orders.
- He can focus on the USP (unique selling proposition) of his products because “products with a strong USP can be sold without paying kickbacks, but on their USP”.
- Employing fewer people increased the peer control among his remaining employees and therefore reduced the level of theft and embezzlement.
"At the beginning of the restructuring process, I was not sure, if downsizing my business will work, but now, the numbers show me, that I have done the right thing. I increased my profitability and achieved a lot of side effects like reducing corruption and occupational fraud, which I have not expected. Sometimes, less is more." he summarized.

Another manager has also streamlined his businesses and centralized important functions like accounting or warehousing for his businesses where each one works like a profit centre. He explained, that this helped him to better consolidate his businesses, to eliminate unnecessary positions and to realize where red flags caused by corruption and occupational fraud pop up. The owner of a chain of pharmacies and the production of cosmetics has centralised his purchasing department. He explained that this strategy helped him to reach economies of scale in the purchasing process resulting in better purchasing prices. He has been able to reduce the risk of occupational fraud in the purchasing department, because the purchasing processes became very transparent. Streamlining and shrinking his business helped his accountants to prepare the monthly financial reports faster than before. He argued, that "In the accounting numbers, finally any fraudulent activity will pop up and the quicker I get these numbers, the higher the chances are to find the perpetrator". A consultant helping companies to reduce internal fraud summarized, that the most important strategy to reduce the level of corruption in organizations is "to eliminate unnecessary positions, obsolete activities and red tape" and the quickest way to achieve these goals is to streamline the business and the processes within the business because "efficient companies have efficient processes and efficient processes hinder fraudsters to commit their crimes."

The owner of a conglomerate of businesses has downsized his group and in doing so, he really increased his profitability because he became more flexible and achieved a better control of his companies. This helped him to detect red flags signalling corruption and occupational fraud earlier. He brought up a popular saying "sales are vanity, profit is sanity" and explained, that he focuses more on increasing his profit instead of increasing sales. The small size of his companies and a clear business focus in each company allow him to know, where each entity is vulnerable to fraudsters. After the successful consolidation
process of his group, the management of his remaining companies became more efficient because he was able to control each business in more depth. And finally, he summarized that his companies became more flexible with less burdens of bureaucracy and red tape and he was able to eliminate unnecessary positions and to get rid of “bad apples”.

4.3.14. Implementing job rotation

Six companies supported job rotation as a successful strategy to reduce occupational fraud, but just three companies have implemented job rotation, mainly to train their personnel and to manage bottlenecks caused by absenteeism during holidays and sickness. The president of a NGO explained that rotating staff is a good way to reduce corruption and can help to share and to increase knowledge within the company. She stated, that “job rotation is sometimes the last chance to grow professional knowledge in a country with a lot of unskilled or poorly educated people and a low performing public education”. One company rotates jobs only to cover workload during vacation times. However, most of the companies interviewed are too small for job rotation and have not reached the critical size of employees to rotate their staff.

The managers of a NGO stated that rotating staff reduces long lasting alliances among corrupt employees and it allows rotating employees in their new position to detect fraudulent activities of their predecessor, as soon as they have started “to dig in detail into the daily business of their new position”. This strategy is also applied by the owner of a gas station. Whenever one of his team leaders is on holiday, not a team member, but a team leader from another team replaces him as a deputy. The owner explained that on the one hand, the deputy gets a chance to enrich his own working experience and on the other hand can cross check, if the manager on holiday has committed any fraudulent activities. The owner of a chain of pharmacies rotates external guards, which accompany and protect his drivers on their daily trips. He explained that the truck drives are less prone to commit fraud in cooperation with external guards, because both of them are not getting too close with each other and as a result, there exists a kind of peer control between them. A similar strategy is applied by the
wholesaler of steel, who has employed an external security company to guard and to protect his premises. He asks the security company to frequently rotate their staff, so that they cannot cooperate with his employees, become friends with them and finally could betray him.

4.3.15. Certifying the company

A certification process like e.g. ISO 9000 or BASC (Business Alliance for Secure Commerce) is already done or planned in the near future by 6 companies. As some of the companies stated, the certification helped them describing, evaluating and improving their internal processes. In doing so, they have also been able to detect any weaknesses with respect to corruption and occupational fraud in their companies and to implement appropriate strategies reducing their exposure to such risks. One interviewee explained that the certification process of ISO 9000 has helped him to understand his business in a better way, to eliminate unnecessary processes, to document his processes properly and to find out where he is weak with respect to any form of crime. He added, that "The certification has allowed him to review his internal processes from different, formerly unknown viewpoints. This helped him to implement appropriate controls and other strategies to reduce corruption and occupational fraud." He disclosed that he has to recertify his company each year and therefore his organization has to update its anti-corruption strategies, which supports them to stay one step ahead of possible fraudsters.

Another company is a member of a conglomerate of businesses, where some of the businesses have already accomplished the ISO 9000 certification. The manager of that company reported that he currently prepares his business for the certification and stated that "such a certification in general helps companies to avoid occupational fraud, because their processes have to be documented, structured and in some cases streamlined". In addition, his company complies with the rules of BASC (Business Alliance for Secure Commerce), which are required by his business partners in North America. He explained that "One has to evaluate and to certify key processes within the company to avoid crime, espionage, corruption and occupational fraud to reach the BASC certification."
The majority of the companies interviewed have not taken any kind of certification into consideration, because for some of them “it is not necessary and just a waste of time and money” and others brought in, that their companies would be too small and it would not give them a competitive edge against competitors in El Salvador.

4.3.16. Checking outsourced activities

A good strategy to avoid occupational fraud is to outsource activities within the value chain, but one has to closely check the outsourced activities. However, just three companies check their outsourced activities carefully. The manager of a pharmaceutical company reported that he has outsourced the warehousing and the physical distribution of his products to an external service provider. This strategy helped him to reduce his operating costs based on the following aspects:

- The external company and their employees are not closely embedded into the whole value chain, so there are fewer chances to betray him, since the externals do not possess profound knowledge to do so.
- The service provider rotates his personnel on a frequent base, so that external employees will not get too close with internals. This reduces the risk, that both of them cooperate and will commit any fraud together.
- The external company is responsible for any losses and damages of his merchandise and they have to reimburse the pharmaceutical company financially for damages e.g. caused by corruption and occupational fraud.
- External service providers are specialized in their service activities. They know their business and any areas where they are weak with respect to fraud, very well. In addition, they can generate synergies and economies of scale within their business, which makes the outsourced activity less expensive than provided internally.

However, the manager also advised, that essential and important processes for an organization like production, sales R&D or accounting should not be outsourced, because “one cannot completely avoid being betrayed by the service provider and it takes more effort to control external companies, which
increases his overheads. The compliance manager of an international company stated, that it is very important to check outsourced activities not only for their quality provided but also with respect to corruption and occupational fraud. He explained that his company undertakes profound background checks including the financial situation of their suppliers, distributors, third parties, service providers and subcontractors for outsourced activities. With the help of a questionnaire, all of them are assessed for their potential level of corruption and occupational fraud including the existence and review of their code of ethics. Depending on their scoring, the business scope with each of them has to be approved by different management levels. His company strictly requires, that all companies which work together with them, have to comply with their internal rules of codes of ethics and even have to acknowledge that by signing a form. The manager of a chemical company stated, that "especially external guards are a weak point for companies, because these people are not very well paid and they lack any solidarity with the company, which makes them more prone to theft" and so, it is very important to check these externals closely.

Some interviewees explicitly stated that they do not control their outsourced activities because they do not want to know anything about their suppliers' and customers' corrupt activities and fear any bad reputation by disclosing others' wrongdoing. A few companies admitted that they do not control external sales consultants and intermediaries, because they have exactly integrated them into their value chain to manage the dirty part of business for them.

4.3.17. Implementing a whistle-blower-hotline

Just a few organizations supported this strategy and only one of them has successfully implemented a whistle-blower-hotline. This company operates internationally and has been hit several times by corruption worldwide in the past. Now, top management strictly fights against corruption in the company. Its compliance manager explained that employees as well as business partners like distributors and suppliers as well as third parties can call a toll-free number to report any incidents. The hotline is operated by an external company, which reports the incoming calls directly to the headquarters without disclosing the
identity of the whistleblower. A global compliance department then informs the respective subsidiary about the incident and supports it to implement appropriate actions. The compliance manager disclosed, that "The whistle-blower-hotline in El Salvador was not very well accepted and no one used it at the beginning, but now, some calls are coming in." The manager of a chemical company had also implemented a whistle-blower-hotline, but terminated it after a few years "because such a tool did not work in the cultural environment of El Salvador. People were hesitant to blackmail others and were not convinced, that their identity would be kept anonymously." The majority of companies have not installed a whistle blower hotline. They stated that this will not work due to the cultural background of their employees i.e. employees are afraid, that their identity will be kept confidential and they are hesitant to grass on their colleagues in front of their employers. In addition, some managers brought in, that that they do not want to spend money for a hotline because they do not see any positive effects for their organization. Other interviewees explained that their companies would be too small, so that a whistle blower hotline would not work and they feared that employees could blackmail others by accusing them misleadingly just to harm them or to take revenge for other things. A few interviewees reported that in their organizations exists a kind of an informal whistle blower hotline, which will inform management about any fraudulent activities in their company. "There is no need to install a formal whistle blower hotline because whenever something illegal will take place in my company, I will be informed about it" disclosed another interviewee.

4.3.18. Insuring against occupational fraud

Just two companies reported that they have insured themselves against damages caused by corruption or occupational fraud. One company holds a robbery insurance, which covers the law suit costs as well as the damage caused by robbers and corrupt employees up to 80% of the damage. The manager of this company highly recommended such insurance, because "he knows a colleague who has been betrayed with more than 50.000 USD in small amounts by one of his employees and when he finally found out, he almost
went bankrupt because he was not covered by any insurance”. Another entrepreneur has himself insured against D&O risks (Directors and Officers risks) as well as against damages caused by occupational fraud, but fortunately he never had to claim for the insurance. He explained that the organizational requirements asked for by the insurance company to get and to keep the insurance helped him to reduce his exposure to any management override of his controls. For the rest of the interviewees, this is not a suitable strategy because the insurance premiums are either too expensive or the requirements which are called for by the insurance companies are too demanding for them.
4.4. Maras

4.4.1. Maras are an increasing threat for society and for the economy

The majority of the interviewees felt, that there exists less organized and violent crime in El Salvador compared with other Central American Countries like Guatemala and Honduras. However, maras became a growing problem within the last few years. These youth gangs extort money from bus drivers, small businesses, people operating in the informal sector and traders at the farmer's markets. Maras also work as henchmen for drug dealers killing their competitors and enemies and their gang members are distributing drugs for the dealers to end users. Mara crime makes investments for locally owned SMEs in El Salvador less lucrative, because it increases the operational costs of the business. However, maras are not a threat for bigger companies and foreign investors, because such companies are rarely approached by the gangs.

The president of a governmental organization described the development of mara gangs and the forms of mara crime: "A lot of El Salvadorians left the country at the beginning of the 1980s to escape the civil war. Currently, more than 2 Million El Salvadorians live in the USA. Maras have initially been founded in Los Angeles and other bigger cities in California and Florida to protect El Salvadorian immigrants against attacks from Mexican immigrants already living there, who wanted to defend their occupied territory against newcomers. Since the end of the civil war in the early 1990s, refugees from El Salvador, including criminal mara gang members returned to El Salvador; the latter bringing back with them weapons, new criminal technologies and new types of drugs. The number of mara members has been growing steadily, because besides returning refugees, also poor native El Salvadorians joined the growing number of maras. Many refugees returning to El Salvador are illiterate and are stuck between two cultures; this situation makes it difficult for them to start a new life. Some mara members even have started consuming drugs and they behave very violently, since they are in desperate need for money to finance their consumption. They engage in drug smuggling from South America via El Salvador and Mexico to the final destination USA. They extort companies and civilians, produce and sell fake CD's and videos, launder money, hijack cars
and trucks, plunder containers and burglar homes. Maras steal cars and smuggle them to neighbouring countries supplied with new, faked identification papers.” Another interviewee described the mara problem as a “vicious circle”: drug trafficking and drug consumption in Central America fosters crime and the development of maras, which then engage in additional drug trafficking and other crime.

The US government wants to get rid of the gang wars in their country and forces convicted mara members to return to El Salvador. This steady inflow of criminals into El Salvador increases the mara problem, explained a consultant. Three interviewees did not share this view and referred to a peace agreement among the few bigger mara gangs, which is in operation since the beginning of 2012; since then, no bigger conflicts, violence or killings have been reported. The owner of a restaurant, who supports imprisoned mara members explained, that “the life of the mara members and their families has really improved since then”. His view was supported by an interviewee working for a political party. She explained that a lot of mara members have been killed in the gang wars and she also referred to that peace arrangement among mara gangs, which helped people to escape that violence and allowed them to start a new life in a less lethal environment. At the time of the interviews taken, the treaty was working for more than five months and she disclosed that the violence has decreased and fewer gang members have been killed in gang wars. However, she also admitted that “the peace treaty is still very fragile and legally not enforceable”.

Most of the companies interviewed were SMEs, which have been owned by German families. According to their managers, maras mainly focus on small businesses in the informal sector, mom and pops, independent bus drivers or small transportation businesses which e.g. deliver bottled water to the neighbourhoods. As a result, the majority of the owners and their managers stated, that they would not be directly affected by maras. The owner of a jewellery production explained, that “the type of business is essential to become a victim of mara gangs. While mom and pops are more exposed to extortion, bigger businesses are not very attractive for maras, because such companies in general posses a higher level of security and surveillance”. In addition, the
location of a business is very important. Most businesses of the interviewees were located in wealthier neighbourhoods or upper level shopping malls, while maras operate mainly in poorer neighbourhoods. However, a majority of the entrepreneurs made also clear, that all businesses in El Salvador are indirectly affected by mara crime, because they have to spend more money for security equipment like burglar alarms, surveillance cameras and they need to employ security guards to protect their property, which increases the operating costs of the business and therefore lowers its profitability.

Some interviewees complained that maras would also influence their personal life and their lifestyle, because "one has to be careful when disclosing personal information and one should lead a life without displaying any luxury to outsiders". Some employers reported that their employees have been extorted by mara gangs and therefore asked them for higher salaries or loans to pay for the extortion money. One interviewee admitted that he would be personally affected by mara crime because the small transportation businesses delivering food and bottled water to his neighbourhood are extorted by mara gangs and therefore these service providers had to increase their service fees resulting in higher costs for the merchandise. In addition, he criticized that he had to increase the salaries of his muchachas, which commute from the countryside to his house because on their way to work, they have to pass "mara land", where they have to pay a toll or have to provide the mara lords with food.

4.4.2. Avoiding an excessive life style and keeping information confidential

9 interviewees advised that investors should avoid leading a luxurious life and must not disclose any private information to the public, since this will attract maras trying to extort them, their families and their companies. An entrepreneur explained that his business has never been attacked by maras, because his office would not be very luxurious and he has not engaged bodyguards, because "such activities could attract maras". Another manager maintained that "leading a live without creating envy from others is the best way to avoid any threats from maras and other criminals and to protect your company as well as
your private live”. As a result, he drives a small car, does not spend a lot of money openly in the public, does not tell anybody about his personal wealth and has moved from his spacious villa into a well protected condominium. His approach is shared by the majority of the interviewees.

Another interviewee has once been extorted by maras and advised that in general, wealthier people should avoid disclosing any personal information outside of trusted people. He assumed that he became a mara victim, because he has neglected that strategy and therefore, a mara gang got access to the address of his family and to his credit card number. The gang approached him and pretended to kill his parents, if he will not pay a “fee”. He did not give in and finally the gang stopped threatening him. Later, he found out, that this information was disclosed to the gang since he had not deleted confidential information like statement of accounts, credit card invoices or private letters properly before putting them into the trash bin. He imagined, that additional information was forwarded by "friends", corrupt employees or neighbours and he summarized, that one has to be really careful when talking to other people.

4.4.3. Avoiding specific areas and business locations

All of the interviewees discussing this issue maintained that it is very important to carefully select the location of one’s business, because maras in general work locally. The real estate manager explained that maras predominantly operate in poorer neighbourhoods and especially in bigger cities. His business park is located outside of San Salvador, the capital and the biggest city of El Salvador and as a result, he is less affected by mara crime. The manager of a local chamber of commerce highly recommended selecting the location of a new business prudently, because otherwise, the company will suffer from mara crime, burglary and extortion. A businessman reported that a few years ago, he has operated a spare parts distribution centre in a city which is located about 130 kilometres east of San Salvador. Burglars and maras have been a big problem in that location. He finally sold that shop to a local entrepreneur, because the losses caused by criminals had eaten up his profit margin. He summarized that “this was a good deal for him, because now, he sells his spare parts to the new owner and that person has to deal with the risk of mara crime".
4.4.4. Rejecting extortions and asking the police for help

Three interviewees strictly rejected extortions to deal with mara crime. One entrepreneur reported that he did not pay money to the maras when he was approached and after a while, the gang let off from him. Another victim reported that he once had been extorted by a mara gang. The gang called him by phone several times and asked for money. He did not give in and the gang threw a grenade into his house to terrify him and make him weak. He called the police and asked for help. The police observed his house, protected him, rerouted and overheard his telephone line and finally, the officers could arrest the perpetrators. The manager of a NGO explained that the government and the police, together with the Association of Chambers of Commerce in El Salvador have implemented a hot line, where companies can ask for help, when they are extorted. However, other entrepreneurs objected that police would be also corrupt and would not help them. Therefore, they could not trust them and would not ask them or other officials for help, because this “could make the whole thing even worse”.

4.4.5. Cooperating with maras

Just two interviewees admitted that they would cooperate with maras. One of them maintained a loose friendship with a mara gang in his neighbourhood. He once bought a piece of land for a new shop. His lot was adjacent to a riverbed, where underprivileged people lived in poor dwellings on his land. He did not dispel them, because he had no need for that part of his ground and finally, he found out, that some of them had been mara members. He still keeps a “good neighbourhood relationship” with them, supports them with food and small presents on special occasions like Christmas and receives a kind of informal protection for his premises. The gang protects him, his family and his property against attacks from other criminals.

The owner of a restaurant actively supports imprisoned mara members in finding a legal job, when they are released from jail. He explained, that “The government fights against mara gangs and imprisons a lot of their members instead of really helping them to change their life. Currently there are about
25.000 people detained and about 14.000 of them are gang members. These detained people want to escape the vicious circle of crime, poverty and imprisoning because they feel that joining a mara gang has not helped them to increase their personal standard of living. The majority of these prisoners are highly motivated to become good citizens and want to take up a regular employment instead of being criminals. However, their chances to do so inside and outside of prisons are very poor and government does not provide enough funds to support them." As a result, he highly recommended cooperation between the government of El Salvador, NGOs as well as businesspeople and the public in general to support these people. For him, the elimination of economic disparities between poor and rich people is the main key to reduce mara crime.
5. Analysis of the findings

5.1. Introduction

Based on the findings of the interviews, the most important and most effective strategies, which have been implemented by the majority of companies will be distilled to give entrepreneurs in various industries practically oriented strategies, how to cope with corruption and occupational fraud, when operating businesses in El Salvador and other Central American countries. In addition, a lot of managers and individuals complained about an increasing threat caused by mara crime. As a result, this important point will also be discussed. For each of the three topics, main strategies as well as practically oriented ideas, how to implement and enforce these strategies will be displayed.

5.2. Strategies and tactical approaches to avoid corruption in FDIs

5.2.1. Implementing strict rules and procedures

In general, most of the interviewees stated that investors have to face the problem of corruption in El Salvador by implementing strict rules and procedures. This strategy will not necessarily lead to the loss of business but can result in an USP for companies, because business partners may explicitly want to do business with companies, which are not corrupt. This strategy can be accomplished as follows:

- Leading by example from the top of the organisation and the "right tone at the top" are the only feasible ways to convince employees, business partners and even third parties to avoid any corrupt activities.
- Making sure that FDI has sufficient time and resources it needs, because companies which are in desperate need to acquire new business or which are under strong financial or temporal pressure to get permissions or public services to establish and to operate their businesses are more prone to behave in a corrupt way to achieve their goals than well funded companies.
• **Being in a favourable position** based on the fact, that the FDI sells products and services with an USP can help companies to become more resilient against corruption, because such a position will enable companies “to follow the rules” without losing business.

• **And finally, one has to avoid doing business with the government** as long as the company does not have an USP with its products and services. Bringing the own company and its products into strong competition with other companies will result in being involved in corruption, because there exists a high degree of corruption in getting public tenders and competitors may be willing to pay these bribes.

5.2.2. Maintaining a certain degree of pragmatism in the business

During the interviews, some interviewees admitted that it would be very difficult to maintain a strict position against corruption, because this could hinder their business; as a result, they live with a certain degree of corruption and play that game similar to a popular saying “When in Rome, do as the Romans do”.

• **Maintaining a certain degree of pragmatism** when doing business in El Salvador is essential for investors. Foreign companies will not always be able to keep the same strict ethical standards in the host country like in the home base in Germany and entrepreneurs have to tolerate a certain, considerably higher level of corruption in El Salvador. However, this approach could be difficult for German investors, because they may find it unusual to accept even small corruption.

• **Sometimes, it is essential to play that game to a certain degree and to “tropicalize” and to adjust the strategies to the cultural environment** of El Salvador, because otherwise, doing business could be very difficult to maintain. In some cases, paying a small “mordida” to get a great benefit like a desperately needed permit or an essential service to operate the business instead of staying “clean” and struggling to get that permission is a pragmatic way for entrepreneurs.
• Some businesses evade corruption by installing intermediaries, consultants or others to do the "dirty work" for them. Investors pay a fee or a commission and the "facilitator" helps them in finding the right people in purchasing departments, bribing them, selling and delivering the goods and even collecting the money from them.

• Other companies convince governmental entities to buy their products and services through lobby work. Lobbyists are financially supported by the investor or a group of investors with the intention, that they influence decision makers to favour the investor's products e.g. through personal connections, paying bribes or doing other favours for them.

Key strategies how investors in El Salvador can manage their exposure to corruption when dealing with governmental entities can be mapped with respect to their degree of involvement in government business and their level of exposure to corruption (i.e. how much corruption they have to accept). Avoiding any business with the government will result in a low level of corruption for the companies; however, these companies will lose business to corrupt competitors. Another approach could be for them to be in a favourable position because the company sells very competitive products with a USP, so that these companies do not need to bribe to get the tenders. Other companies may chose to strictly say no to corruption and doing a kind of "cherry picking", resulting in accepting just these tenders, where they are not forced to bribe and just sticking with the rules. Lobbying instead of bribing and tolerating a certain level of corruption will result in a higher exposure to corruption but can help companies to get some profitable orders. Using intermediaries to do the dirty work for investors will probably result in a higher level of corruption but can bring companies more business, since agent know, how to get the business for them and help them to do the dirty work. And finally, paying bribes and therefore playing the game like other competitors do will result in a considerable high level of corruption but can be a way to get more business with the government.

Investors have to make their individual choice which way they want to go. This decision will be influenced (1) by the industry they are in, (2) where their home base is located, (4) how competitive their products are, (5) how corrupt their competitors behave and (6) what a kind of attitude management has towards
corruption. Unfortunately, a higher level of corruption is accompanied by a higher risk of doing business as well as with higher costs for operating the business (e.g. bribes and commissions paid to agent will reduce their profit margins). The following figure maps these key strategies.

Figure 11: Key strategies in the involvement of government business

5.3. Strategies and tactical approaches to avoid occupational fraud

5.3.1. Knowledge is essential

It is essential for managers to have profound knowledge of their business and its processes, their business partners and the industry they are in. They also need to be aware of third parties, which can negatively influence or even harm the company. This will help them to detect weak points, where their company is vulnerable to occupational fraud in its internal and external processes.
• Managers have to know their internal and external processes very well and have to update their knowledge continuously, because this will help them to analyze their potential exposure to any corrupt activities and to implement appropriate controls. Investors have to constantly update their implemented controls and the design of their processes so that they will become more resilient against occupational fraud.

• Learning from past fraudulent incidents can help managers to enlarge their knowledge and to act proactively. Fraudsters in general are very adaptive and creative and as soon, as a company has implemented a new strategy to reduce occupational fraud, smart perpetrators will start to circumvent this strategy.

• External consultants and auditors can help companies to improve their processes. In general, external auditors have specific and profound knowledge when they undertake the audits. However, externals do not always know the organization's processes as well as internals. Therefore, the selection of externals with respect to their familiarity with the company and their industry specific knowledge is very important.

• A good opportunity to acquire and to share knowledge is to benchmark with other companies, trusted friends or within business reunions. However, it is difficult to get honest answers from peers because a lot of businessmen in El Salvador are very concerned that they will lose their reputation when they agree to discuss any fraudulent activities in their companies. Working together with governmental agencies in general is not very fruitful, since governmental officials are more interested in getting information than disclosing information.

5.3.2. HR Management

Managing human resources in various forms is a key strategy to prevent a FDI from being betrayed by its fraudulent employees.

• Investors need to hire trusted people and have to bring trusted people into key positions of the company, because it is almost impossible for managers to control all business activities without help. Therefore, management has to rely on trusted people in the company.
The selection process for new applicants is essential, because it is very difficult to find skilled and honest personnel. HR managers have to ask applicants for references, they must verify the CV's by former employers or other people and should check the credit history of applicants. The level of background checks has to increase with the intended level of occupation for the applicant. Some companies even apply a polygraph testing or a voice stress recording test during the interviews to verify the information given by the applicant.

- **Investors have to take care of their employees** to foster loyalty towards the employer and to reduce the risk of being betrayed by employees. Taking care of employees includes paying employees well, paying social security and offering fringe benefits for them, because this will reduce their propensity to betray the company to settle any personal financial problems. Professional training will help employees to get better paid positions in the organization. Some managers train their people to grow personally and to manage their finances and a few companies have even established cooperatives for their employees.

- **Maintaining a good business climate** is an additional way to reduce the risk of occupational fraud in the company. For employees, working in a company with a good business climate is almost as important as earning enough money. As a side effect, a good business climate can help companies to attract skilled applicants. Some managers do regular barbecues or weekend trips with their employees or give small presents for special occasions to increase the loyalty of the employees resulting in a lower propensity to betray the company. And finally, especially in the service industry, a good business climate is very important, because it encourages employees to offer a good service to their customers. However, based on cultural issues, managers have to keep a “healthy distance” to their employees. Being too close with employees could be misunderstood by them, that they can betray their employers without having to fear any retaliation or to ask for exorbitant salaries or benefits.

- **Job rotation in the company** can reduce long lasting alliances between corrupt employees and it allows the rotating employee in the new position to detect corruptive acts committed by his predecessor. Job
rotation is also a good way to motivate and to promote employees and to enrich their working experience. However, job rotation is not always easy to maintain in small companies, which have not yet reached the critical size do so.

- Management must **immediately and strictly prosecute offenders** to show any prospective fraudster that his wrongdoing will not be tolerated and will have negative consequences for him. Some of the companies have a higher tolerance for first time offenders. They take the costs for an additional personal search into consideration, because finding adequate personnel is very difficult in El Salvador. Others strictly lay off offenders and sue them for the damage. In addition, strictly prosecuting offenders is a cultural necessity, because it will foster the managers’ reputation as being in a strong position and will distract “bad apples”.

- And finally, management has to give illustrative and honest good examples to convince employees behaving in the same way. Top managers should not turn their heads away from occupational fraud because ethics and honesty are top management issues which have to come from inside the company to be successful.

### 5.3.3. Controls

It is essential to control employees and to implement various kinds of controls within the company to avoid or at least to reduce occupational fraud. The majority of the managers explained, that such controls also help them to run their business more profitably, since internal processes will be improved and will become more efficient.

- **Controls do not only have a detecting, but also a deterring effect on employees.** As soon as employees realize that there are not any strict controls established and enforced, they will try to betray the company. Strict controls are necessary to reduce the loss of property, theft of goods and merchandise, absenteeism from work and even espionage of business secrets and help investors to keep processes efficient.
• **Controls have to be focused** on areas and functions, where fraud and corruption can result in a serious threat for the company. Such areas are e.g. accounting departments as well as other functions which handle cash, checks or merchandise and also marketing and purchasing departments which are prone to receive kickbacks. Regular stock counts in the warehouse and unexpected, irregular controls of employees help to reduce the loss of merchandise and goods through theft and embezzlement. The scope of controls should not only comprise internal processes but must also include outsourced processes.

• **Controls have to be supervised by management, trusted employees and external or internal auditors.** A lot of companies advise that one should prefer internal auditors. On the one hand, internals know company specific business processes better but on the other hand, externals can give additional input because they have broader insights into other companies, are not so narrow-sided, are in general well trained in their professional area and may not oversee red flags.

• When implementing such controls, investors have to adjust these controls to the cultural and legal environment of El Salvador, i.e. to “tropicalize” them. For example, controlling employees in front of others in not advisable, because people could lose their face. It could be a good idea to implement polygraph tests, voice stress recording tests or overhearing telephone lines to detect any corrupt activities. However, controls should not de-motivate employees and should not have a negative influence on the working climate in the organization.

• **Managers have to control the efficiency of their implemented controls and have to update them** continuously, because smart perpetrators will always find a way to circumvent established controls. Managers should be present and visible, walk through their premises with open eyes, check operations, question any irregularities or unusual activities and look for red flags. In addition, managers should learn from past incidents to improve and to upgrade existing controls.
• In addition managers should think about **implementing new technologies** like GPS in delivery vans, electronic burglar alarms, surveillance cameras, RFID chips to monitor the access to their premises and other computer aided technologies.

• **Companies have to undertake a cost-benefit calculation of their controls.** Personnel are comparatively cheap in El Salvador. Installing additional guards and auditors in general pays out well and implementing the latest electronic technology is less expensive than a few years ago, because prices for such technology have tremendously decreased and offer an alternative towards expensive security personnel.

### 5.3.4. Set up, management and organization of the company

While native El Salvadorians intuitively adjust their anti-fraud strategies to the social, cultural and economic environment of El Salvador, foreign investors have to learn this approach. A lot of strategies, which work in Germany, do not work well in El Salvador. Investors have to understand that their employees and business partners live in families, where corruption and occupational fraud is a part of their daily life. The majority of El Salvadorians are poorly educated, the legal environment is less predictable for investors and there exists a lot of "machismo". Investors have to deal with a lot of delays and red tape which can hinder their operations.

• **It is very important to select reliable and trustworthy business partners** or joint-venture partners. German investors in general do not have a close network in El Salvador, so it is difficult for them to find honest business partners. Chambers of commerce or business consultants can help them to find reliable and trustworthy partners. Nevertheless, German investors have to cross check their new business partners, must ask for references, have to make background checks and must observe them closely.
• One should **immediately stop doing business with “bad apples”** because otherwise, German investors will suffer from a bad reputation like employing corrupt employees or doing business with corrupt business partners. It is also recommended to have some clauses in a joint venture contract, which allows the investor to squeeze out his corrupt business partner immediately without harming the joint-venture.

• Investors should **not “turn a big wheel” at the beginning of their business activities abroad** but are advised to increase the size of investment, the business volume and the business scope step by step in accordance with a growing knowledge of the El Salvadorian market. Some entrepreneurs have increased the share of their local joint-venture partners step by step and it took several years, till these locals became equal and trusted business partners.

• **Focussing and streamlining the company and eliminating unnecessary business** help companies to keep their structures easy, simple and transparent. Processes without red tape allow them to detect any fraudsters quickly. One has to avoid discretionary power in key functions and must balance the workload in each position. Management has to centralize important functions so that it can control operations in a better way. Eliminating unnecessary positions and employing fewer people reduces the risk of employing “bad apples” and at the same time, peer control and loyalty among the remaining employees will increase.

• **Streamlining processes can also be accomplished by reducing the business scope of the company and by eliminating unnecessary products in the product portfolio.** The purchasing department has to deal with fewer suppliers and products and has to manage less purchase orders. Salespeople have to deal with fewer customers but of a better quality and solvency, so that the temptation to bribe customers is reduced. Finally, management can improve controls of its operations; red flags with respect to crime will pop up earlier and are better visible.

• **Certifying and auditing the company** is another way to reduce occupational fraud. A certification process requires, that companies have to describe, to evaluate and to improve their internal processes
continuously. Organizations have to redesign their processes and must keep processes transparent. A certification process is supported and reviewed by externals, which bring additional knowledge into the organization. Finally, companies have to re-certify regularly, which requires reviewing their processes continuously, thus helping them to stay one step ahead of possible fraudsters.

- **Implementing organizational issues** can reduce occupational fraud, because in many cases, “the enemy comes from inside the company”. A lot of companies have put a “four eyes principle” into operation and they require the approval of at least two people for critical decisions; this reduces the risk of discretionary power and helps to separate power and control. Some entrepreneurs avoid cash transactions, because dealing with cash always bears the risk of embezzlement. Purchasing departments have to show at least three quotes before they can purchase goods. Managing the distribution of information in an organization allows, that each employee just gets the information which is required to fulfil his task – but not more; only a few trusted people have access to the whole scope of information. Sensitive functions like IT, HR, R & D, warehousing and accounting should be located separately in secured areas with restricted access.

- Bigger companies could **shrink or downsize their organizations**, because smaller companies are in general more flexible and have to deal with less red tape. Downsizing a company can even result in a higher overall-profitability, since smaller companies in general are more efficient, easier to control and their management can get rid of “bad apples”.

- Controls can be supported by **electronics and other technical devices** like observation cameras, burglar alarms and GPS tracking for delivery vans. RFID chips for doors control and restrict access to sensitive departments. Checking IT systems regularly, making back-ups of essential data, checking and scanning E-Mail accounts and changing passwords regularly increases the security level. However, organizations have to keep in mind, that it is almost impossible to maintain a 100% security level.
• Establishing internal rules and principles within the organization, writing them down, and presenting them to the employees help companies to increase the sensitivity of their employees with respect to occupational fraud. Smaller companies still assume, that their employees know, how to behave in a “correct” way, even, if this is not written down. However, by not writing down rules and principles, these companies forgive a chance that their employees as well as related parities discuss and implement anti corruption activities, because written rules have a higher significance than just vague informal rules. Companies have to take care that these rules are followed by employees and related parties in the value chain. Therefore, managers and team-leaders have to explain these guidelines with illustrative examples from everyday life so that even poorly educated employees and business partners understand them and apply them. And finally, managers also have to follow these rules in an honest way, so that they act as illustrative good examples for their employees as well as their business partners.

• A few companies have implemented whistle-blower-hotlines in their organization, where employees, as well as business partners and third parties can anonymously call a toll-free number to report cases of corruption and occupational fraud related with that company. These hotlines are mostly operated by external service providers, so that incoming calls cannot be tracked back to the whistle-blower. However, some companies admitted that their whistle blower hotlines are not very well accepted. The majority of the interviewees objected, that a whistle blower hotline does not work satisfactorily in this country because whistle blowers are not well protected by law and people are anxious that their identity is not kept anonymously. In addition, El Salvadorians do not want to blackmail peers. Others stated that a whistle-blower-hotline can have a negative impact on the working climate of a company. Some companies rely on a kind of informal whistle-blower-hotline and get any information about fraudulent incidents directly from trusted employees in the company without a formal whistle-blower hotline.
• Companies should insure themselves against occupational fraud, robbery, burglary or D&O (directors and officers) risks. Before doing so, they have to evaluate and to map the significance and the likelihood of that risk to find an appropriate insurance. Management should not underestimate these risks, which always result in a lower profitability and in the worst case can lead to the loss of the whole investment. It is almost impossible to avoid corruption, occupational fraud, robbery, embezzlement of money, burglary and espionage of business secrets completely and to get insurance for all these risks. Therefore, buying insurance for the most likely and severe risks is recommended.

5.4. Strategies and tactical approaches to manage mara crime

Maras became an increasing risk within the last few years for entrepreneurs in El Salvador. A lot of gangs rob and extort mostly smaller businesses in the informal sector owned by native El Salvadorians as well as “mom and pops” selling food or operating a restaurant, small transportation businesses or taxi drivers. Although maras are not a big threat for foreign owned and bigger companies, investors from Germany have to deal with a loss of profit caused by crime, burglary and higher overheads e.g. for security. Therefore, entrepreneurs have to implement adequate strategies to reduce their exposure to mara crime.

• Investors have to check the neighbourhoods before renting or buying premises for their foreign investments. Selecting the appropriate location for their business helps investors to reduce expenses for damage caused by burglaries, robberies and other kind of mara crime e.g. spraying of graffiti. Maras extort employees on their daily trip to the office, so employees may get in financial trouble and could betray the company. Entrepreneurs suffer from higher prices e.g. for bottled water delivered to the company because small transportation businesses have to increase their freight charges when they are extorted by maras on their delivery trips.
• The selection and location of customers and suppliers is very important because in some areas, delivery vans have to pay a kind of entry fee to be allowed to deliver the investors’ merchandise. Entrepreneurs have to plan the routes for their drivers cautiously to avoid such areas. In general, German investors in El Salvador have a different business focus, so the chance that their business will be harmed by maras is considerably low.

• Companies have to invest in security measures like burglar alarms, surveillance cameras or security personnel to protect themselves against attacks from maras. The best way to evade any extortion by maras is to avoid opulent offices and premises because this could attract all kind of criminals. Safer places to operate the business are secured business parks with restricted access for outsiders which are protected 24/7.

• Employers should support their employees financially to reduce any high situational pressure when they are extorted by mara gangs. However, higher salaries and loans with a high default rate will increase the operational costs of the investment, therefore reducing its profitability.

• Investors and managers should avoid leading a luxurious life, driving expensive cars or even engaging bodyguards. Private people and businessmen in general should keep any essential information confidential e.g. not talking to outsiders about their personal wealth and deleting written sensitive information like statements of banking accounts properly before putting them into the garbage.

• Whenever a company or a private person is approached by mara gangs, the victims should not respond on attacks, should reject any attempted extortions and are advised not to pay money. In addition, companies should call a “mara hotline”, where they can ask police and other experts for help. However, police and governmental institutions are still very corrupt and some policemen even cooperate with mara gangs, because they get a share of their profits. As a result, victims must be cautious when asking for help from them.
Investors have to tolerate maras and must accept a certain level of mara crime, because maras and other organized crime have been growing in recent years in all Central American Countries and became a part of everyday life in El Salvador, which cannot be evaded completely.

And finally, in some cases, it could be helpful to cooperate with maras instead of fighting against them. Supporting mara gangs with small money and gifts in exchange for protection against other criminals is another way to manage mara crime. However, investors must be aware, that such agreements are weak, may not last forever and a proper fulfilment of such an agreement is not legally enforceable.

Key strategies how investors and private people in El Salvador deal with mara crime can be mapped with the level of their involvement in crime and the costs for the organization. Avoiding a luxurious life, opulent promises and not responding to attacks help companies and individuals to save money and operating below the radar of maras. A prudent selecting of business partners is another strategy to keep the involvement into mara crime low but is more costly (e.g. opportunity costs for lost business). The same applies for asking the police for help, since police is also corrupt and may ask for money to protect the companies. Selecting a safe location for ones business will increase the operating costs additionally since landlords in better locations will charge higher rents but on the other hand, less damage caused by maras is a positive effect for doing so. Investment into security equipment (e.g. burglar alarms, armoured entrance gates and additional security personnel) is even more costly but will help to reduce one’s exposure to mara crime. Offering financial support to employees who are extorted by mara crime increases the overheads of the company as well as its involvement in mara crime, since this will not stop maras to export employees and in the long run is not a good strategy. The most risky and most costly approach is to cooperate with maras and to pay them money, because investors are directly dealing with maras, they will have to pay fees continuously and any agreement with maras legally not enforceable. As a result, most investors prefer to lead an inconspicuous life, do not show any luxury in the public and do not drive expensive cars, since this is the most successful strategy for them in the long run.
The following figure summarizes these approaches for investors as well as for individuals already living in El Salvador.

Figure 12: Strategies how to deal with mara crime

Source: by the author
6. Conclusions

6.1. Introduction

In this chapter, the empirical findings of the interviews and the analysis of the various topics will be clustered into the most important and most effective strategies, which investors from Germany and other countries should implement to avoid any threats of corruption, occupational fraud and mara crime in the business world of El Salvador. These strategies will be discussed and triangulated with the findings of the literature review. Common pitfalls, which can face investors will be explained as well as suggestions, how to avoid them. In summary, these strategies will help entrepreneurs in El Salvador to become more resilient against corruption and occupational fraud in their organizations and will help them to deal with an increasing threat of mara crime in an efficient way. The chapter will be closed by discussing limitations of this case study and by suggesting ideas for further research.

6.2. How to avoid corruption in a FDI in El Salvador

6.2.1. Implementing strict rules and procedures

El Salvador suffers from a higher level of corruption than Germany (TI, 2012). Nevertheless, German investors should try to keep with the ethical standards they live in their home base and should implement the same rules in El Salvador. Anti-corruption must be made a strong part of their company culture worldwide (Albrecht et al., 2011; Globalt Ansvar, 2008) and anti-corruption has to be driven by top management (Hess and Dunfee, 2000 and 2003), because this is the only way to convince employees following the same strict rules and procedures. Albrecht et al. (2011) and DIHK (2008) recommend strictly prosecuting offenders, because this will send out a strong signal, that there exists zero tolerance towards corruption in the organization (VDMA, 2010). Kaufmann (1997) suggests implementing stiff penalties for fraudsters. Klaiber (2005) also recommends strictly saying no to corruption, openly explaining this attitude to all governmental employees a company is dealing with and being patient and pertinent to evade corruption and red tape. Poole-Robb and Bailey
(2002, p. 96) summarize, that although the “short term advantage of ethical behaviour does not clearly translate into measurable financial advantage”, it is still worth it in the long run, because “falling foul of the ethical issues are threats to asset security” (ibid, p. 96) and will result in the loss of revenue in the future. They disclose that, companies which are not involved into corruption will be rewarded in the long run. Luo (2002) and Gaviria (2002) found out that companies which depended on corrupt arrangements rather than open competition suffered most, because they used corruption as a panacea to heal organizational, strategic and competitive disadvantages instead on improving such internal obstacles. TRACE (2009) discovered that none of the companies which refused to pay even small bribes reported any significant or prolonged disruption in their business activities. Hess and Dunfee (2003) recommend refusing contracts that require a bribe payment, because the long-term benefits in a corruption-free environment will outweigh the short-time profits. Investors need to establish social, ethical and environmental responsibility; otherwise, they will lose business in the long run because they rely on bribes instead of building up competitive advantages (Poole-Robb and Bailey, 2002; Porter, 1985). Unfortunately, many companies have developed value statements, but few truly follow them to manage their business (Green, 2004).

Based on the culture of El Salvador, the size of the companies, the personal attitude of top management and the business they are in, it is sometimes not so easy to implement strict rules, since investors have to maintain business in the real world. As a result, tradeoffs between implementing strict rules and living with some grey areas have to be made.

6.2.2. Being in a favourable position

Webster (2005) as well as Lu and Beamish (2001) argue that especially small and medium sized companies are more exposed to corruption and occupational fraud than bigger companies because in general, they have fewer resources to eliminate them and they are in a weaker position to compete against more powerful companies. Kroll (2010) and Grisham (2010) advise starting an early planning process and allowing the FDI enough time and financial resources, so that investors will not be squeezed into a position to acquire desperately
needed business with corrupt activities. Porter (1985) states, that being in a favourable position will help entrepreneurs to stay one step ahead of their competitors, because they have a competitive advantage, which can also reduce their exposure to corruption.

Unfortunately, especially SMEs are not always in the position to maintain this strategy, because they need essential services and are not always in the position to deny "mordidas". The same dilemma pops up for foreign investors, who lack a network, when starting their FDI.

6.2.3. Avoiding business with the government

Poole-Robb and Bailey (2002) explain that public sector contracts are critical, because unfair competition hinders companies from exploiting their potential. On the one hand, intelligence is a good way to fight against unfair competition, but on the other hand, it is very often difficult to implement adequate security, because "the secrecy surrounding activities aimed at securing unfair advantage hinders the acquisition of such intelligence" (ibid, p.115). Doh et al. (2003) suggest avoiding these markets entirely, because public business partners in emerging economies in general have a higher level of corruption (Svensson, 2005; Doig and Riley, 1997; VDMA, 2010). Especially infrastructure projects, mining, construction, healthcare and public services in Latin America suffer from a high rate of corruption and therefore, entrepreneurs should avoid these sectors completely and focus on the private sector instead (Kroll, 2010; Simmons & Simmons, 2006; TI, 2010; O'Higgins, 2006).

Depending on the business scope of companies, it is sometimes not an appropriate strategy to avoid doing business with the government. The importer of sporting goods is a good example for this, since he explicitly focused on government business. He could not stay away from this market segment, because otherwise, he would have lost economies of scale.
6.2.4. Maintaining a certain degree of pragmatism in the business

Culture is defined by Trompenaars and Hampden-Turner (2011, p. 6) as "a way, how a group of people solve problems" and therefore cultural traditions have a big influence on how managers operate their business. Hall (1960) argues that one has to cope with different business attitudes, when working abroad. Investors have to consider the cultural environment and the ethical standards in El Salvador and have to adapt to a certain degree to them, which will inevitably result in "ethical conflicts" (Grisham, 2010, p. 29). Doig and Riley (1997) and PriceWaterhouseCoopers (2008) explain that it is sometimes necessary to play that game to a certain degree and to adjust one's business strategies to the way of doing business in El Salvador. Therefore, maintaining a certain degree of pragmatism instead of taking a strict position against corruption is a good advice for investors, because good ethics are not always good for business and can be even contra productive (Schwab, 1996; Miller et al., 2005). However, Hess and Dunfee (2003) and Grisham (2010) recommend trying to stick at least to some standards instead of operating the business completely the same way as El Salvadorians will do; now and then this could be a difficult task for German SMEs, because they lack the knowledge to do so (UNIDO and UNODC, 2007). Søreide (2006, p. 401) discloses, that "Adjustment to local practice can of course refer to legitimate ways of behaving and doing business, but also includes the option of active bribery."

Caslione and Thomas (2000, p. 51) report from "the reality" of doing business in emerging markets and summarize, that everyone needs protection for his operations, "either government-sponsored or criminal-sponsored". However Levin and Satarov (2000) warn entrepreneurs, that both forces are constantly trying to gain influence in an organization and management has to make their choice for one of the evils. Klaiber (2005) adds that it is reasonable paying a small sum to individuals to get desperately needed services and to speed up processes in Latin America; Bardhan (1997, p. 1334) supports that "there are many cases, where corruption is mutually beneficial resulting in an equilibrium for both parties."
Simmons & Simmons (2006) explain that some entrepreneurs use the help of intermediaries to circumvent the law and to avoid direct involvement into corruption. Varese (1997) found out, that lobbying is more existent in societies in transition like e.g. El Salvador to pressure the government into getting the intended support. Søreide, (2007, p. 3) describes lobbying as "a democratic business practice" of gaining influence which benefits a group, while corruption, is illegal and just benefits those involved. Søreide (2006) adds that some companies stay away from corruption by going through agents, consultants and joint-venture partners. And finally, social contributions and public donations can be another way for companies to obtain needed services without breaking laws or ethics (Doh et al., 2003).

A recurring problem in non-domestic markets is that established players apply illegal and unethical means to obstruct potential competitors; many new entrants do not know how to react or how to exploit that situation (Poole-Robb and Bailey, 2002). To overcome these problems, Poole-Robb and Bailey (2002, p. 117) recommend, that "intelligence is vital because of the detailed insight that can be achieved on competitors' activities and the invisible risks present".

Maintaining a certain degree of pragmatism is the most common strategy for SMEs operating in El Salvador. They tolerate small bribes to get essentially needed services but reject to pay bigger sums. Lobbying and working with intermediaries is another way for them to operate in an environment, which has a considerably high level of corruption.

6.3. How to avoid occupational fraud in a FDI in El Salvador

6.3.1. Knowing one's business and the related industry very well

"Unfortunately, corruption is a complex phenomenon that is almost never explained by a single cause" (Tanzi, 1998, p. 30) and therefore, IIA, AICPA, and ACFE (2008) recommend understanding fraud risks, so that an organization will be able to fight against these risks. According to Poole-Robb and Bailey (2002, p. 7), "business strategy and operations in non-domestic markets involve risks" and "are very much a changing environment in terms of what one knows and is
used to know” because they expose companies to risks outside their normal day-to-day experience. It is essential for managers to know their business, their business partners, third parties and the industry they are in very well (Bishop and Hydolski, 2009; Center for Democracy and Governance, 1999). Kogut and Zander (1992) found out, that deep knowledge and smart administration of information do not only help to prevent fraudulent activities, but are the reason, why some companies perform better than the market. Kroll (2010) highly recommends taking more effort and time in gathering information e.g. with the help of internal or external consultants, since a lot of essential information is not quickly available in developing countries. Such profound knowledge will help entrepreneurs to detect any weak points, where their company is vulnerable with respect to its internal and external processes. According to PricewaterhouseCoopers (2008), the majority of senior executives believe that a better understanding of fraud in its internal processes will help them to fight against deception by implementing appropriate strategies. O’Gara (2004) discloses that the knowledge about an organization is essential for detecting red flags arising from occupational fraud.

A lot of SME’s are tight on resources (UNIDO and UNODC, 2007; Lu and Beamish, 2001) and possess a low level of cultural experience (Cotae, 2009). Therefore, Cleveland et al. (2009) and Kroll (2010) highly recommend engaging external counsel in a review of all key strategies and asking professional service firms experienced in forensic accounting, investigations and compliance monitoring to reduce the level of corruption in the organization. Benchmarking with other companies, trusted friends or within business reunions (Center for Democracy and Governance, 1999; Globalt Ansvar, 2008) is also helpful to gain a better understanding and new insights "to realize the substantial benefits of reduced corruption" (Doh et al., 2003, p. 125). Bishop and Hydolski (2009, p. 136) and (Albrecht et al., 2011) summarize that the better a company knows its business, the better prepared it will be “to proactively manage fraud and corruption risks and to deal with fraud when it occurs”. Green (2004, p. 60) recommends preparing a simple flowchart for each process “to get a graphic understanding of the process and the controls in place".
Bishara and Schipani (2009) state, that learning from past incidents will help managers to prevent future lapses. Spector (2005) supports, that drawing on lessons from past experience is essential to implement appropriate anti-corruption strategies in the future. Unfortunately, Wells (2007, p. 405) explains that “surprisingly few organizations - especially the smaller ones - make any effort to gather historical, fraud related data” although this information is a good indicator of the real risks of fraud. The arrogance and ignorance of executives, who do not want to spend money on research and think that they knew better, are major threats to implement well working strategies to reduce fraudulent activities (Poole-Robb and Bailey, 2002).

This is a key strategy for all investors, since they know their business very well and they recognize where they are vulnerable. As an essence, one should avoid doing business in markets and industries, where an organization lacks profound knowledge. This is especially important for “newcomers” in El Salvador.

6.3.2. Hiring trusted, competent employees and keeping them in key positions

Good human resource management starts with transparent recruitment procedures based on qualifications to overcome nepotism (Child, 2007). Kroll (2010) and Albrecht et al. (2011) recommend that hiring trusted, honest employees reduces the level of occupational fraud in an organization. Entrepreneurs have to bring trusted and well educated people into sensitive key positions (Deloitte, 2007; Kroll, 2010) because these people will honestly support top management to control its business activities. The recruitment and the promotion of employees are key processes to prevent corruption (Miller et al., 2005; Bishop and Hydolski, 2009). Biegelman and Bartow (2012, p. 287) and DIHK (2008) state, that “vetting all employees through background checks is an absolute necessity today”, because fraud in the workplace has increased and checking them would be the only way to avoid hiring bad apples.
Local attitudes are important when hiring senior managers for the FDI (Poole-Robb and Bailey, 2002). However, a lot of companies operating internationally have a shortage of people with sufficient international experience to understand different cultures, to analyse risk and to evaluate return (Poole-Robb and Bailey, 2002). Johnson et al. (2006) recommend that a company has to employ business practitioners with cross-cultural competence to manage the FDI. Hong and Doz (2013, p. 42) add, that managers with a multicultural background in general have the ability to act as mediators in the FDI, because “they possess the ability to switch between different cultures and forms of communication”, which helps them “to bridge disparities among the home base and the FDI” (ibid, p. 42). Reducing masculinity at the workplace through increased and non-discriminatory participation of women can reduce corruption and fraud (Sanyal, 2005), because male employees in general are more likely to commit fraud and the damage they cause is more than twice as much as that caused by females (Wells, 2007) – however, this is difficult to maintain in a country like El Salvador where there exists a lot of “machismo” (Wolf, 2009).

Companies should continuously check their employees. Martin (2012) states that a change of lifestyles (e.g. an extravagant style) of employees is a big red flag and he advises that a company should start background checks, when this happens. “Financial staff should be evaluated for compliance with accounting policies and standards, as well as with the company’s code of ethics” (Green, 2004, p. 165). Companies should take care of a well designed exit management for leaving employees. DIHK, (2008) recommends that when an employee leaves a company, one has to check him properly to avoid any theft of business secrets, since the employee’s trust in that situation is very often disturbed which increases his propensity to betray his former employer (Burke, 2011).

Human resources management is a main strategy for all companies, because people run a company and not machines. This is also a key strategy supported by the interviewees since they take care, that they hire honest people, which fit to the culture of the company. Management regularly scans its employees for bad apples, thus avoiding to get a basked of rotten apples.
6.3.3. Training employees and taking care of them

Albrecht et al. (2011, pp. 174) and Doig (1998) recommend educating and training employees properly, because this “will foster loyalty towards the employer” and therefore reduces their propensity to betray the company. “The fraud-educated workforce is the fraud examiner’s best weapon – by far” (Wells, 2007, p. 408). Training and education make policies clear and give employees practical examples how to grow personally and how to behave in a non-corrupt way (Doh et al., 2003). Biegelman and Bartow (2012, p. 307) explain that “Training reinforces a company's commitment to ethical conduct and compliance with company policies, as well as government laws and regulations” and that “one has to use interactive, scenario based training at all levels of the organization” (ibid, p. 307). Ernst & Young (2011) advise that it is essential to provide anti-bribery training especially for those employees who represent the greatest bribery risks e.g. in purchasing and accounting. Benfodová et al. (2000) recommend workshops with employees and managers under the leadership of an expert consultant to create ethical codes and to teach these codes to the employees.

Pepys (2005) explains that one response to corruption and occupational fraud is to improve the terms of employment and to take care of employees. Wells (2007) advises paying employees properly and rewarding them not only for the end result without considering the means, how they have achieved their goal. For the evaluation of salaries, one should not only consider, what is “actually” justified, but also, what employees “perceive” to be justified; in addition employers should avoid unreasonable expectations from their employees, since employees will finally try to get their share by betraying the company (Wells, 2007, p. 406). Child (2007) explains that addressing staff welfare will reduce staff's inclination to corrupt practices e.g. when they experience periods of financial difficulties. Wells (2007) adds that even trusted employees can become violators, when they are facing a financial problem. Next to the size of their actual income, employees need realistic opportunities for career and income progression (Child, 2007).
Stachowicz-Stanusch (2010) argues that an organization can reduce corruption and occupational fraud by developing and consequently managing positive corporate and organizational identity, thus maintaining a good business climate. La Porta et al., (1997, p. 337) and Hosmer (1994) conclude that trust in organizations promotes a formation of “horizontal networks of cooperation” among people and generates commitment, which finally will foster ethics in an organization. Tomlinson (2011, pp. 132) recommends rising trust within organizations with the following strategies (1) promoting employee benevolence and integrity (2) balancing trust and control of employees (3) attributing control to issues of risk, not of trust and finally (4) being a trustworthy employer. Wells (2007, pp. 18) refers to the Hollinger-Clark Study conducted in 1983, which found out, that “job dissatisfaction is the primary cause of employee theft.” According to Child (2007), employees regard their working environment particularly important for job satisfaction because this can send a signal, that they are valued. A good business climate fosters job satisfaction and helps to reduce a high staff turnover, which especially in Latin America is very common and which can lead to the theft of important business secrets by the leaving employee (Kroll, 2010).

All interviewees stated that one has to treat people fair and to take care of them in various ways, thus increasing their loyalty and increasing their propensity to betray the company. This approach is also in line with “tropicalizing” the strategies to the cultural environment of El Salvador, because soft factors like celebrating the birthday of an employee is very important for staff this country and also a USP for companies to find adequate personnel.

### 6.3.4. Organizational issues

Fink (2005, p.149) explains, that it is dangerous to place a large amount of responsibility on one person because this can make a project vulnerable to fraud. Occupational fraud arises, when one person is handling all matters throughout the value chain (O’Gara, 2004). Biegelman and Bartow (2012) report that the lack of separation between power and control will lead to good opportunities for employees to betray a company in various forms. Therefore, Wells (2007) recommends job rotation and enforced vacations, because this will
help to detect offences when the perpetrator leaves or is off duty and it will avoid building up trusted networks among corrupt employees (Lambsdorff, 2002; Tirole, 1986). The rotation of administrative staff must be frequent, so that these employees cannot exploit any power bottlenecks or other weak areas (Kroll, 2010). Lingham (2010) found out, that teams crossing functions and levels can help organizations to generate an environment that fosters ethical behaviour and consequently reduces occupational fraud.

All companies have implemented various kinds of organizational issues to prevent occupational fraud. All activities have to fit to the company's individual set up and some of them cannot be implemented based on the companies' size. While even smaller companies separate power in various ways, rotating staff is almost impossible for them, because they do not have the critical size to do so.

6.3.5. Strictly prosecuting offenders

Management must immediately and strictly prosecute offenders, because the longer corruption and fraud exist, the more endemic they become and the more effort it takes to extinguish them (Ali and Isse, 2003). Omitting to do so will send a wrong signal to perpetrators, "because it could be understood by would-be-perpetrators of fraud that, if you are caught, you do not have to worry about prosecution" (O'Gara, 2004, p.57). Bishop and Hydolski (2009, p.67 and p.71) recommend "to provide discipline for violations of the code of ethics / conduct in written form". The cooperation of employees in internal investigations is critical and therefore, a company code of conduct should include the statement that employees are required to cooperate fully with any authorized investigation (Biegelman and Bartow, 2012).

Wells (2007) found out, that the most common response of companies, which have been betrayed, was on the one hand to immediately fire the perpetrator (87% of the interviewees); however, on the other hand 76.5% of them avoided taking any legal actions, because they felt a bad publicity. The Corporate Crime Reporter (2007) supports the latter and summarizes that a lot of companies prefer non prosecution agreements instead of strictly prosecuting offenders.
Poole-Robb and Bailey (2002) explain this behaviour with the circumstance, that many less-developed markets have corrupt judicial systems, which both increase costs and lengthen the time required to reach verdicts. Nevertheless, Ernst & Young (2011) advise that one should not tolerate any unethical conduct across all levels of organizations, because only consistency enforces sanctions.

When cases of corruption arise, it is essential to suspended suspected staff immediately so that no evidence is compromised and to ensure, that perpetrators are prosecuted and their outcomes are published (Child, 2007). Miller et al. (2005) advise that any punishment of offenders must be done immediately to be effective, because this is the direct logic of a reactive anti-corruption system where the perpetrator, as a direct result, should be apprehended, tried, and if found guilty, punished in some way. Olken (2007) and Luo (2008, p. 139) warn that audits and controls are sometimes not as powerful as one would believe, because the punishment of offenders is relatively weak and "the organization tolerates long term corruption practices". Klitgaard (1998a) argues, that just "frying a few big fish", especially those, which are already identified is not enough, but one has to prosecute all offenders and management must reprimand such corrupt behaviour with a range of penalties like loss of professional standing or loss of travel privileges. PriceWaterhouseCoopers (2008) warns that not strictly prosecuting offenders will have a negative effect on the reputation of the company and that a company will finally lose attractiveness to new recruits.

Strictly prosecuting offenders to set the tone and to act as deterrent examples for prospective fraudsters is done by all companies. This is also a cultural issue, because tolerating occupational fraud is regarded as being a weakness of the management. However, due to the size of the country, the labour market in El Salvador is considerably small. Therefore, some companies give fraudsters a second chance, since it is hard to replace staff in El Salvador. So, entrepreneurs have to make a trade-off between strictly prosecuting offenders and finding or replacing skilled personnel.
6.3.6. Management has to give good examples

Top management has to give illustrative and honest good examples and has to be committed to the anti-fraud activities in the organization because staff may well tend to follow the good or bad examples set by them (Child, 2007; DIHK, 2008). Deloitte (2007) found out, that in more effective companies, a higher portion of senior executives are involved in fraud and corruption control. Biegelman and Bartow (2012, p.385) add that "no employee can be expected to follow company policy or obey laws if their leaders are not doing the same". O'Gara (2004) estimates, that almost 60% of all occupational fraud against the organization is committed by management, so including management into all anti-fraud activities is very important. Senior management, the board of directors and the audit committee have the primary responsibility of creating the tone, have to show a full commitment to the anti fraud strategies and have to be illustrative good examples themselves (Bishop and Hydolski, 2009). Tanzi (1998, p. 34) recommends "honest and visible commitment by the leadership" to fight against corruption. Schwartz (2011) explains that the continuous presence of ethical leadership is one key element for an ethical corporate culture which has to be openly displayed by top management. Very often, arrogance and ignorance of executives fosters corruption, because these executives ignore the risk of occupational fraud and "behave in a way that they know better but do not" (Poole-Robb and Bailey, 2002, p. 139). Top management should never tolerate any "Chutzpah Defences" (Biegelman and Bartow, 2012, pp. 8), where any person in charge of detecting fraud excuses himself by stating that he did not have enough expert knowledge in that specific area to detect the fraud.

All interviewees stated that management in El Salvadorian companies have to give good and honest examples for their employees, thus convincing them to behave in the same way. One interviewee summarized, that "management cannot expect employees to behave honest, if management does not lead the same way".
6.3.7. Working together with third parties

According to Johnston (1998), investors should encourage in long-term social activities to reduce corruption. Omazic (2010) and Lin (2010) report best practice cases, where companies work together with local communities to improve the conditions for a better life in communities where they do business. Corporate social responsibility (CSR) which means “engaging in socially responsible actions and contributing positively to the societies in which they live” can improve the ethical environment of the workplace resulting that employees are less likely to engage in deviant behaviours (Omazic, 2010, p. 388). Cragg et al. (2011) explain that integrity pacts between private bidders and governmental agencies can generate mutual agreements to reduce corruption and fraud where governments, bidders and even civil society are the winners. Jarquin and Carillo-Flóres (2000, p. 199) disclose, that “the role of citizens (both individuals and the public as a whole), trade groups and various organizations of civil-society are crucial to combat corruption and occupational fraud by reinforcing the processes”.

Working together with peers and externals, as well as with governmental agencies can help to get information and new insights how to cope with corruption and occupational fraud in the own organization (Klaiber, 2005). UNIDO and UNODC (2006) state, that business associations and trade chambers can train SMEs in corruption prevention and provide them with practical information. However, The World Bank (2000) objects, that those collective business associations for countries in transition are difficult to find due to diverse private interests. Hess and Ford (2008) add that whole companies or corrupt managers try to hide information about corruptive acts because they fear prosecution and a bad reputation.

Just a few companies in reality work together with others. Influenced by social norms and manners in El Salvador, potential peers in general are not willing to share information about such a sensitive topic like occupational fraud. The majority of them fear to lose their face, when admitting, that such activities have taken place in their company. Working together with governmental agencies like the TEG is adversely discussed. While private people and managers regard
such meetings as being worthless for them because governmental counterparts would just take information but not disclose information, officials regard this strategy to be very helpful for them since they get new insights from others.

6.3.8. Implementing adequate and effective controls

Kroll (2010, p. 20) found out, that in the year 2010, investments in financial and other controls have been the most important investments for companies doing business in Latin America to prevent loss caused by corruption and occupational fraud. Corruption control is a complex construct which has to be viewed in a multidimensional context (Lange, 2008). Klitgaard (1998) advises that controls should be applied to analyze systems, rather than particular individuals. A good anti-corruption system maintains controls in a balance between its components because otherwise it "creates a secretive and punitive culture" (Miller et al., 2005, p. 153).

Wells (2007) as well as Biegelman and Bartow (2012) state, that one can prevent corruption and occupational fraud by implementing strict controls, since such controls will have a deterring effect on employees and will increase the perception of detection to a possible fraudster (Doig, 1998). According to Bishop and Hydolski (2009, p. 67), "a strong control environment promotes controls to prevent, to deter, and to detect fraud" and "sets an appropriate tone for the entity's attitudes toward fraud and fraud prevention". Such controls are also a good way to identify red flags and other side-effects of fraudulent behaviour (Albrecht et al., 2011); red flags are often the first indication of fraud, since "fraud is usually committed behind closed doors, and perpetrators make great efforts to hide their actions" (ibid, p. 179)

Controls have to be focused on sensitive areas or functions. Saksena (2012, p. 55) highly recommends focusing controls on two major categories of assets which are misappropriated: "cash and inventory" and "other assets". Bishop and Hydolski (2009 and 2009a) have developed a "heat map" and Kriebel (2012) has designed a "risk and chance matrix", where managers can evaluate their company in terms of likelihood and significance of occupational fraud so that they can focus their controls on areas, where they are able to absorb the risks. Wells (2007) recommends surprise audits, because the threat of surprise audits
may be a powerful deterrent. Controls should not only comprise internal processes, but also outsourced activities, which can be prone to “self-enrichment via conflict-of-interest arrangements” (O’Gara, 2004, p. 60). A company has to monitor specific employees and certain groups of employees very closely, because the most damaging crimes are committed by older, educated and trusted male employees, mostly from the management level (Green, 2004). Kroll (2010) and TI (2009) suggest conducting background checks for employees and for the whole scope of companies an investor is doing significant business with. Cleveland et al. (2009) and VDMA (2010) also advise the careful evaluation of third parties in the value chain.

Effective anti-corruption strategies need to be tailored to the social environment in which corruption occurs (Doig and Riley, 1997). Cultural sensitivity of the management is required when implementing such controls (Holzmüller and Stöttinger, 2001). Biegelman and Bartow (2012, pp. 383) advise, that all activities have to be adopted to the cultural environment and have to be continuously adjusted to changes so that they will finally become embedded in the “cultural-mind-set” of all employees. Wells (2007, p.9 ff) warns, that controls, which are de-motivating employees can bring them to commit fraud, since employees feel humiliated and therefore want to “get even with their employer”. The development of core values and their protection through regular controls have to refer to all stakeholders and must take cultural patterns into consideration (Stachowicz-Stanusch, 2010, London and Hart, 2004). All controls have to be reviewed and updated continuously to be effective (TI, 2008), because “the ever-changing nature of corruption makes continuous monitoring essential” (PriceWaterhouseCoopers, 2008, p. 19; VDMA, 2010). Green (2004, p. 21) adds that “the crimes of tomorrow will be different from the ones today” and explains, that setting the focus on a single risk is like “over stuffing a suitcase”; therefore, companies need a proactive approach in implementing, monitoring and adjusting their controls. According to Bishop and Hydolski (2009), companies also need to consider any possibility of management override of the controls, because this is regarded by professionals the most cited concern (Cain, 2012). Finally, Wells (2007) warns that tightening controls can lead to a “hydraulic effect” (ibid, p.23) which can result, that
employees will find other ways to betray a company, as soon as a specific control is implemented. Therefore, monitoring the conditions of the complete control structure is necessary, because otherwise, controls will fail (Green, 2004). Finally, Schwartz (2011, p. 292) summarizes that “due to human nature crime, corruption and other illegal or unethical activity is unlikely ever to be completely eliminated [...] regardless of whatever efforts are undertaken”.

UNIDO and UNODC (2007) found out, that especially SMEs do not want to spend money to prevent corruption and occupational fraud because they often lack the awareness of the long term hidden costs, which are considerably higher than the short term expenses to implement controls. However, PriceWaterhouseCoopers (2008) explains that the cost of implementing controls pay off well in the long run and therefore, it is wise for companies to undertake a cost-benefit calculation of the controls. Bishop and Hydolski (2009, p. 22) argue that fraud is not only costly, but it can be hard to recover from and so, investments in any kind of fraud prevention and detection is money, which is well invested, since “ongoing fraud and corruption schemes represent a continuous drain of a company’s profitability”. Singleton and Atkinson (2011) also favour anti-fraud and anti-corruption activities, because the most effective controls and anti-fraud activities like job rotation, mandatory vacation, training for employees and outsourced whistle-blower hotlines are relatively inexpensive to implement. Miller et al. (2005, p. 148) disclose, that in many enterprises, risks have been reduced to such a degree that management has made the decision not to proceed with further risk management, because the residual risk is an “acceptable risk” for them.

All investors have implemented controls to prevent their employees as well as third parties to betray them. They have adjusted the controls to their individual needs as well as to the social norms in El Salvador. Since the majority of managers maintain to know their business very well, it is easy for them to undertake a cost-benefit analysis and to install controls in an efficient way. They also evaluate and implement controls on a frequent base and learn from past incidents to stay ahead of possible fraudsters. However, especially SMEs tolerate a certain level of occupational fraud, since it is very costly to delete such activities completely and “no vale la pena!” (It is not worth it!).
6.3.9. Installing internal and external auditors

Internal control is not a separate discipline but an important component of the overall management process guiding the enterprise (Green, 2004). Internal auditors, people from the management level and trusted employees play an important role in performing proactive fraud and corruption detection work and "internal audit departments must accept the challenge to take a leadership role in fraud prevention" (Biegelman and Bartow, 2012, p. 385). Therefore, VDMA (2008) recommends installing a compliance manager in an organization to cover this important function. Musau and Vian (2008) prefer internal auditors, because even competent external auditors start their work in general later than internal ones and a lot of damage can happen in the meantime; in addition, externals could lack specific knowledge of the company or an industry necessary to detect any fraudulent activities.

However, the experience of independent externals and outside professionals involved in the area of occupational fraud detection is also important for companies, because these externals in general posses profound knowledge and can support internal auditors in detecting additional wrongdoing (Bishop and Hydolski, 2009; Miller et al., 2005). Cleveland et al. (2009) explain that professional service firms experienced in forensic accounting, investigations and compliance monitoring can assist and support internal auditors. Fraud risk assessment and fraud risk control should also evaluate access and override of system controls and the help of outside experts should be taken into consideration when doing so (IIA, AICPA, and ACFE, 2008). Martin (2012) also emphasizes the value of an independent evaluation by security firms in analyzing the risk of corporate security, since these people have specific expert knowledge in this field.

This topic is discussed diversely by the interviewees. While especially bigger companies have installed internal or external auditors, smaller companies rarely do so, because they do not have enough personnel or do not want to spend money for internal auditors. They also object that external auditors would lack company or industry specific knowledge. Unfortunately, they forgive a chance to get new insights.
6.3.10. Implementing the latest technology

Bishop and Hydolski (2009, pp. XXIV) highly recommend implementing anti-money laundering software or advanced analytics to monitor business processes for potential fraud and “to enforce higher standards of compliance, transparency, and efficiency”. However, management has to apply these tools wisely and has to understand “both the potential benefits of advanced technology and its inherent limitations” (ibid, p. XXIV). Deloitte (2007) found out, that more effective companies in fighting against occupational fraud have implemented increased use of technology to monitor this threat. Poole-Robb and Bailey (2002 p. 246) state, that technology has come to the aid of closing potential weaknesses like the defence of stock with cameras, audio verification, a network of detectors, sound alarms and “other tricks that alert standard security and police protection”. According to O’Gara (2004, p. 184) and Biegelman and Bartow (2012), CAATs “computer-assisted audit techniques” and other forensic data analysis tools “are the wave of future to detect fraud in organizations”. Bishop and Hydolski, (2009) disclose, that controls have to be automated, because they are in general better than manual fraud controls and therefore, the best solution to do so is implementing the latest technology.

Since electronic devices like GPS and other technology (e.g. RFID chips) became less expensive in the last few years, many companies have installed them. However, businesses still favour employing security guards, since their wages are considerably cheap and armed guards have a deterrent effect on prospective fraudsters.

6.3.11. Set up, management and organization of the company

All fraud risk management strategies have to be integrated within the FDI as well as within its various affiliated companies worldwide (Bishop and Hydolski, 2009). Doig (1998) recommends concrete actions rather than refining theories and processes to fight the current high level of corruption; Doig and Riley (1997) suggest considering more universalistic strategies as well as timing and sequence when developing and implementing anti corruption strategies. Poole-Robb and Bailey (2002, p. 281) state, that “short terminism” is a problem both
within and outside of the company, resulting in limited budgets and timescales, which will increase the exposure to corruption and occupational fraud; companies are strongly advised to avoid these common pitfalls and implement long term strategies instead.

Anand et al. (2009, p. 226) have discussed a variety of individual organizational responses to corruption and occupational fraud and summarize, that in reality, firms react with a mixture of responses, which can either be “a combination of strategies or the sequence of actions”; the latter form is often applied when the case proceeds and circumstances change, which happens when companies operate in developing countries like El Salvador. Doh et al. (2003) recommend that firms should pursue multiple business strategies and options to combat corruption and occupational fraud. For all activities, “cross-group collaboration among chief executives, officers, directors, and the various legal, compliance, internal audit, finance, human resources, investigative, and corporate security functions” is essential to reduce occupational fraud (Biegelman and Bartow, 2012, p. 387). IIA, AICPA, and ACFE (2008, p. 6) have set up key principles for managing an organization’s fraud risk including implementing a fraud risk management, a regular fraud risk exposure assessment and appropriate detection techniques.

It is very important to select reliable and trustworthy business partners or joint-venture partners when initially starting the investment process (Kroll, 2010; Grisham, 2010). Adjusting the entry mode based on the level of corruption in the host country (e.g. joint ventures are more adequate if the level of corruption is high) is also essential (Doh et al., 2003; Rodriguez et al., 2005). Smarzynska and Wei (2000) add that there is always a basic trade-off between fighting corruption and losing valuable know-how to local partners in a corrupt environment. Biegelman and Bartow (2012) advise that a good rule is having zero tolerance for fraud and meaning it, resulting in immediately stopping business with corrupt employees and business partners. Therefore, Wells (2007) requires, that an organization must take all reasonable steps to appropriately respond to this offense by providing clear behavioural boundaries and by giving feedback to employees and business partners (Green, 2004).
Focussing and streamlining the company and its processes, eliminating unnecessary business, getting rid of unnecessary positions and downsizing the company can help companies to keep their structures simple and transparent, since the lack of transparency and accountability and a high level of bureaucracy facilitate corruption and harm the performance of a FDI (Miller et al., 2005; Poole-Robb and Bailey, 2002). “Transparency enables existing corruption to be brought to light and discourages incipient corruption” (Miller et al., 2005, p.43). Juravlev (2012) adds that good administrative processes like implementing clear and objective criteria for any management decisions are essential. “Designing out” corruption in processes through simplified, transparent administrative procedures and oversight controls is one important component to reduce occupational fraud (Moran et al., 1999, p. 597). Good process design and a feedback process that contains best-practice attributes will help a company to become more effective; nonstandard processes should be avoided, because they lack any controls and can foster occupational fraud (Green, 2004). Speeding up processes is another tool to reduce corruption and occupational fraud (Del Castillo and Ampudia, 2005). Finally, organizations need to be “right-sized and well designed” to counter corruption (Miller et al., 2005, ix). The Center for Democracy (1999) therefore asks organizations to eliminate unnecessary positions and to reduce the number of employees.

A quality management system has to be integrated into anti fraud activities, which contains risks assessment and risk management for various aspects including corruption and occupational fraud (Doig, 1998). Certifying a company requires a continuous improvement of processes by reviewing and learning as described by Deming in 1986 with the “PDCA cycle: plan – do –check – act” (Dahlgaard, 2002, p. 285). Wells (2007, p. 409) advises “bringing up at every phase of a routine audit or management review the subject of fraud and abuse to raise awareness of these issues”. The certification of a company also requires the documentation of processes, which is supported by Child (2007), who asks that all procedures should be fully documented in procedure manuals and desk instructions to reduce any override of the implemented controls.
UNIDO and UNODC (2006) as well as TI (2009) advise that any organizational issues have to meet the specific needs of SMEs, the particular business they are in, their location and the capacities available in those firms. Fink (2005) found out, that placing a large amount of responsibility on one person can make a project vulnerable to corruption. Juravlev (2012) recommends that entrepreneurs should avoid the decentralization of tasks to reduce a high level of discretionary power. Wells (2007, p.279) and Miller et al. (2005, p.33) refer to a popular saying of Lord Acton “Power corrupts. And absolute power corrupts absolutely” and suggest, that implementing the principle of the division and separation of responsibilities is a good way to avoid any conflicts of interest. Green (2004, p. 69) explains that “segregation of duties is a common and basic control lever often employed in organizations that have enough human resources to divide tasks into discrete bits so that no single person can effect a transaction without the help of others”. Huther and Shah (2000) as well as Wells (2007) suggest diverting business to various vendors and tightening procurement guidelines. The DIHK (2008) and TI (2009) recommend implementing the “four eyes principle”, job rotation among employees and a strict separation between business and private sphere as effective organizational issues, which will help to reduce “the inappropriate use of corporate resources for personal reasons” (Biegelman and Bartow, 2012). Installing a compliance officer will help SMEs to be prepared for the future because compliance will become more complex than today and will become an important issue for all companies (Kerkhoff et al., 2012). An adequate IT security strategy is essential for companies to protect their hard-, software and data against internal and external intruders; state of the art techniques have to be applied to ensure that a company will stay compliant with the increasing importance of that issue (BSI, 2007; Kerkhoff et al., 2012). Child (2007) explains that the centralised processing of data can make collisions of corrupt employees more difficult. Green (2004) as well as Poole-Robb and Bailey (2002) recommend focussing on the control of information flows and the restriction of unauthorized dissemination of information, since the loss of business secrets can harm a company’s reputation and may lead to financial losses. As a general strategy, Kroll (2010) advises keeping overseas operations like foreign FDI’s initially separate, so that in the worst case, at least the
headquarters will not be harmed. And finally, physical security measures like installing electronic locks on data centres, strongboxes for valuables, electronic security monitors and restricted access to sensitive areas like warehouses or IT centres are good, visible and longstanding material controls to protect an organization and its employees (Green, 2004).

While the literature recommends a strategic approach to prevent occupational fraud, especially smaller SMEs lack the resources and the knowledge to do so. As a result, they stay with the daily business and operate in fraud preventing just tactically. Some issues discussed are not feasible for them, because they are too small. New investors in general operate more tactically, since at the beginning of the investment process in a foreign country they do not possess all relevant information to do otherwise. The owner of a very successful conglomerate of businesses is an illustrative exception. He works very strategically, organizes his company very well and in doing so, he does not only reduce corruption and occupational fraud, but has also increased the profitability of his companies. This manager advises that management has to continuously monitor its strategies to be successful in the long run.

6.3.12. Establishing and publishing internal rules and principles

Companies, which have implemented written codes of ethics, are less likely to accept international bribery (Kinney and Moore, 2008). Bishop and Hydolski (2009, p. 74) add, that “one of the most effective mechanisms for promoting ethical behaviour is a written code of ethics or code of conduct”. The DIHK (2008) and TI (2009) recommend avoiding any grey areas by implementing clear guidelines. “Effective codes of ethics facilitate the engagement between pre-existing moral values on the one hand, and the reality of day-to-day practice on the other hand.” (Miller et al., 2005, p.139). Doh et al. (2003) and The Center for Democracy and Governance (1999) suggest providing workshops for employees, making the policies of conduct clear and teaching employees with the help of practical examples to increase their understanding. Wells (2007) asks for the participation of all employees in training programmes which should provide practically oriented examples, how to avoid corruption and occupational fraud. Schwartz (2011, p. 283) goes one step further and requires “a sign-off
provision, whereby employees acknowledge that they have read, understood, and/or complied with the code”. However, Antes and Mumford (2011) warn, that codes of conduct are limited, because they tend to overemphasize the outcomes and overlook processes and as a result, they may not work well in everyday’s business.

While some companies train their employees to grow personally just a few of them provide anti corruption training. The majority of companies maintain that they have implemented internal rules and principles, but just a few managers have written them down. They argue, that their employees know, how to behave anyway.

6.3.13. Implementing a whistle blower hotline

A big advantage of whistleblowers is that they are very sensitive to wrongdoing before its existence is known to management (Miller et al., 2005). Deloitte (2007) and Pricewaterhouse Coopers (2008) found out, that tips passed to a whistle blower hotline are the primary way, how frauds are detected and that the majority of more effective companies in fighting against occupational fraud have implemented a whistle blower hotline. According to Wells (2007, p. 410) “a hotline is considered by most professionals to be the cornerstone of an employee reporting program”. Albrecht et al. (2011, pp. 174) recommend creating an effective whistleblower system to prevent corruption, because this is “good business” and will have positive effects on organizations. Hess and Dunfee (2003) suggest working on the social architecture of the company. They (ibid) state, that procedures must be in place to report any violations of the company’s policy without retaliation for any reports about corrupt practices, which can be accomplished by an anonymous whistle blower hotline. Bishop and Hydolski (2009, p.79) and PriceWaterhouseCoopers (2009) characterize a good whistle blower programme as a tool, where “hotlines or other confidential reporting mechanisms are accessible to all personnel” and where employees can get support if they face problems. An international consultant for compliance management advises that a whistle blower hotline does not necessarily need to be installed in the form of a telephone or e-mail hotline, but can also be implemented by providing a letter box, where whistleblowers can
drop in their messages anonymously. On the one hand, Child (2007) recommends rewarding whistleblowers under a statutory basis to increase the use of hotlines. On the other hand, Bishop and Hydolski (2009, p. 107) warn that “It is easy to put a whistleblower hotline in place, but more difficult to establish one that works and has the confidence of executives and employees.” because “all too often it is the whistleblower standing alone against the wrongdoer” (Biegelman and Bartow, 2012, p. 257) and he or she has to fear reprisals (Martin, 2009). Pool-Robb and Bailey (2002) recommend considering cultural barriers for people to blow the whistle. The international consultant adds that whistleblowers are hesitant to call because they fear that their whistle blowing could be tracked back and they could lose their anonymity; therefore, many whistle blower hotlines in El Salvador are not very well used.

The reality of doing business is different from theory with respect to implementing whistle-blower hotlines. A lot of SMEs are too small to implement them. In addition, this strategy does not work in El Salvador caused by cultural issues. People do not want to blackmail others and are curious, if their identity is kept confidential when blowing the whistle. As a result, whistle blower hotlines are not well used in El Salvadorian companies and as a result, some companies have even stopped using them.

6.3.14. Safeguarding against risks

Safeguarding against unforeseen risks to reduce the threat of occupational fraud (Kroll, 2010) can be accomplished by mapping and evaluating a company’s exposure to corruption and occupational fraud (Bishop and Hydolski, 2009 and 2009a; Wells, 2007). Poole-Robb and Bailey (2002, pp. 106) recommend implementing a corporate counter-intelligence (CCI) which describes “all measures taken to discover, assess and defeat the threats from other corporations, foreign intelligence services, pressure groups, the media, terrorists, extremists, criminals and others” and which “consists of both offensive, proactive and defensive elements” (ibid, p. 107). Green (2004, pp. 107) advises that each company should have implemented a “disaster recovery planning (DRP)” to be prepared for all contingencies when a case of corruption, occupational fraud or any other crime has happened and its outcomes become...
a severe threat for the future existence of the organization. Poole-Robb and Bailey (2002, p. 249) disclose, that “effective contingency planning is always prudent, because when a crisis breaks, there is rarely enough time to collect thoughts.” Companies should seek to include deal terms that are even more defensive than usual when operating in emerging markets (Kroll (2010). Wells (2007) suggests developing a satisfactory list of backup suppliers since a strong attachment to one primary supplier increases the risk of being asked for bribes from that supplier. Kerkhoff et al. (2012) recommend a directors and officers insurance policy to cover damages caused by fraudulent top managers.

Just a few companies have insured themselves against such risks after they have undertaken a cost-benefit analysis. The majority of companies have not yet implemented a contingency planning but some entrepreneurs want to do it in the future. Hopefully, it is not too late for them!

6.3.15. Implementing a reporting system and keeping effective communication

Kerkhoff et al. (2012) state that a good reporting system is essential to be compliant. Biegelman and Bartow (2012) ask, that every organization must have an effective reporting mechanism allowing employees and others outside of the company to report fraud and they suggest, “that the reporting mechanisms must be well-communicated and easily accessible to ensure full reporting of all issues” (ibid, p. 387). Open communication will allow employees “to state their ethical concerns with organizational practices” (Hess and Dunfee, 2003, p. 323). A good tracking system including key indicators, a balanced scorecard and accurate financial numbers can help a company to identify problems, to track red flags caused by occupational fraud and to measure process improvement (Green, 2004). Marquette and Doig (2004) underline the importance of records and record-keeping in developing countries to combat corruption and to promote participation in local anti-corruption activities. Next to maintaining a good reporting system, companies should establish effective internal and external communication of their anti corruption and anti fraud programmes (TI, 2009; DIHK, 2008). Investors can use electronic sources like the FCPA Blog to fight against public corruption with transparency (Cleveland et
SiFo (2010) explains that a professional communication strategy is essential, when fraudulent activities have been detected to reduce any reputational damage for the organization. And finally, Miller et al. (2005) summarize that it is not always possible to avoid corruptive or fraudulent activities and so, the next best solution is to disclose the wrongdoing as a deterrent example.

Just one local subsidiary of a worldwide operating company has implemented an effective reporting and information system. The majority of companies do not want to spend money for this and whenever corruptive acts in their organizations will pop up, they prefer not to disclose such things to outsiders or even the public. As a result, theory is wrong in a country, where there still exists a lot of “machismo”.

6.4. How to deal with mara crime in El Salvador

Urcuyo Fournier (2008) and The World Bank (2011) report, that crime rates in El Salvador are among the top five in Latin America and that maras are one of the main responsible for violent crime in Central America. Organized crime and maras are one of the fastest growing problems for international business as well as governments and include activities like drug dealing, robbery and extortion (Poole-Robb and Bailey, 2002, pp.79).

Investors have to tolerate maras and cope with them, because maras and other organized crime are a part of everyday life in Latin America (Cruz, 2011a; Wolf, 2009). Carpenter (2012) reveals that one should communicate with maras, negotiate with them and strive for a dialogue to gain a tactical advantage since “engagement opens a channel of communication that can help defuse crises” (ibid, p.129). However, Carpenter (2012) warns, that such agreements can be dangerous and that informal agreements do not result in a legal obligation for maras to keep their promise. Cruz (2011) recommends supporting governmental agencies and NGOs in their policies preventing especially juveniles from joining gangs and becoming criminals, because the outcome of these programmes is more successful than the policy of a “mano dura”.

180
Zamora (2006) states that companies and individuals need to consider any form of crime and attacks and it would be a good idea to have several plans, how to defend oneself and one's property against any form of crime. SHFT Plan (2011) recommends developing a defence plan and engaging in muster exercises. Zamora (2006) explains that preventing crime from happening requires an active mind and body and advises that security has to be habitual to be effective. Gyves (2011, p. 181) states, that intelligence can “underpin a successful counter gang campaign” and can help to mitigate their impact on society. Expecting help from police is the wrong way, since many policemen cooperate with maras and some of them even try to extort maras (Cruz, 2011).

Peetz (2004) explains that most of the “barrios marginales” (slums in big cities) are divided up amongst maras and investors should avoid these dangerous areas. Klaiber (2005) recommends that entrepreneurs, their families and their businesses should move to gated communities and business parks with restricted access for outsiders which are protected 24/7 by security but also objects, that this will increase their costs for private housing as well as operating the business. Poole-Robb and Bailey (2002, p. 250) and Zamora (2006) summarize, that “personal security at home and abroad relies on constant awareness of one’s surroundings and the need to exercise care and common sense at all times”.

Companies have to invest in burglar alarms, surveillance cameras or security personnel, should keep strict control of access keys, must control all visitors properly and have to prepare a list of emergency numbers and procedures (Poole-Robb and Bailey, 2002, pp. 261). Klaiber (2005, p. 407) reports, that in some cases, up to 40% of the investment volume has been spent for all kind of security. Green (2004, pp.68) recommends employing the same security methods in a company as one does at home, such as locks and deadbolts on the doors, electronic security monitors on the windows, strongboxes for valuables, fire extinguishers and smoke detectors. SHFT Plan (2011) suggests regular guard rotation to protect oneself from criminal personnel and Ungar (2009) adds that street patrols and infrastructural improvement (e.g. better street lighting) are good strategies being adopted around the world as one part of protection against crimes.
Wells (2007) proposes that employers should help their employees financially to reduce any high situational pressure caused by extortion through mara gangs. Poole-Robb and Bailey (2002) suggest keeping a low profile, which includes dressing and behaving conservatively, not displaying any cash or jewellery and avoiding any conspicuous behaviour that will draw attention to gangs and other criminals. Zamora (2006) adds that the best form of self-defence is avoiding a position, where one has to defend oneself. Therefore, Poole-Robb and Bailey (2002) advise that people in general should keep private and business information confidential. Klaiber (2005) adds that entrepreneurs and their families should not to be predictable for maras and therefore have to change daily schedules, routes and habits.

Investors, which have grown up in El Salvador or live there for a long time manage their exposure to mara crime intuitively very well. They know where to locate their businesses and they protect their companies, their families and themselves against attacks and extortions by leading an inconspicuous life. They have invested into various security measures to protect themselves. However, once they are approached by mara attacks or mara extortions, they do not call the police or governmental agencies since these organizations cannot help them and some criminals within their staff even work together with maras. As a result, these investors settle things directly with the gangs. Foreign investors are advised to behave in the same way as local investors and learn from them to avoid common pitfalls when dealing with mara crime.
6.5. Concluding remarks

In summary, all of the strategies, **how to avoid corruption** in FDIs, which have been disclosed by the majority of entrepreneurs, are supported by the literature. The discussed and implemented activities are also consistent with Cressey's Fraud Triangle:

- **The rationalization** can be reduced by strictly saying no to corruption and by making this clear to all business partners. In addition, the tone at the top management is essential, because this will give employees no excuse to behave in a corrupt way. Writing down these rules and therefore avoiding any grey areas is also helpful.

- **The opportunity** can be reduced by avoiding any business with governmental entities or industrial sectors, which are prone to corruption.

- **The pressure** can be reduced by bringing the FDI into a favourable position, allowing the FDI enough funds and time to start the business, sticking with the rules and selling competitive products and services.

Some of the strategies **how to avoid occupational fraud in FDIs** which have been highly recommended by the literature, were not always supported by the interviewees to be helpful in the real business world of El Salvador.

- Working together with others is not so helpful for entrepreneurs because they do not get enough information. Peers will not openly discuss this issue, which is based on the culture of El Salvador since no one wants to lose his face when talking about fraudulent activities in his organization.

- Implementing whistle-blower hotlines is not a good strategy for entrepreneurs. Employees in general do not want to harm others and are cautious to keep their identity anonymous. Therefore, El Salvadorians do not blow the whistle. This fact in mind, together with a cost-benefit calculation supported just two companies to implement and to operate a whistle-blower-hotline successfully. In contrast, the literature and a lot of experts recommend this strategy as being very efficient and not costing a fortune.
• Due to the small size of the companies, just a few managers support job rotation to eliminate criminal collaboration among employees.

• The majority of companies have only a few outsourced activities and so, they do not closely observe them with respect to occupational fraud.

• A lot of investors support implementing written codes of ethics, which is also supported by the literature. However, the majority of supporters have not yet implemented them in their company. They argue that this would not be necessary in their organization, because each employee already knows what management expects from him.

All implemented activities of entrepreneurs to avoid occupational fraud in El Salvadorian companies are consistent with Cressey's Fraud Triangle:

• The rationalization can be reduced by maintaining a good working climate and by management giving honest, good examples for their employees, since this will reduce the propensity to commit fraud. Implementing written codes of ethics and strictly prosecuting offenders are also helpful strategies for entrepreneurs.

• The opportunity can be reduced by implementing adequate controls and by hiring trusted people, which support top management in controlling. Investors have to know their business very well, so that they can install adequate controls. Learning from past incidents and hiring external consultants is another way to gain essential forensic knowledge and to be one step ahead of possible fraudsters, therefore reducing the opportunity for them to commit fraud. Certifying a company and reworking organizational issues throughout the value chain will also help to reduce weaknesses within processes of the FDIs, thus reducing the opportunity for internals as well as externals to harm the company.

• The pressure can be reduced by taking care of employees, training them and paying them well. Providing them with the benefits of cooperatives can help employees to improve their financial situation as well as that of their families.
The strategies, **how to cope with mara crime** in the literature are mostly supported by the interviewees. However, the strategy of asking police for help is adversely discussed both in the literature and in the interviews. On the one hand, examples show that it could be helpful to ask police for help, but on the other hand, corrupt police officers are sometimes even cooperating with maras or extorting them. As a result, this strategy is not always successful.

**In general,** the idea of Cressey's Fraud Triangle can not only be applied by investors in El Salvador to fight against corruption and occupational fraud, but is also a good tool to reduce other kind of threats by criminals (e.g. burglaries, armed robberies or kidnapping), since always all three factors have to come together so that a criminal activity can take place and will be successful. Therefore, eliminating one of these factors (in many cases, this will be “reducing the opportunity to do so”) is always a prudent way to fight against criminals.
6.6. Suggestions for further research

This research project was focused on the geographic region of El Salvador. All Central American countries with the exception of Belize have a similar cultural heritage, but Norton and Whatmore (1993, p. ix) describe Central America as a "region in which a fantastic range of political, geographical, ethnic and environmental forces have collided, producing a magical hybrid." As a result, corruption, occupational fraud and mara crime as well as appropriate strategies to reduce the exposure to these threats may differ in each Central American country. Each Central American country is considerably small and the recent progress in trying to establish a Central American Common Market (MCCA), which has been started in the 1960s (Hidalgo, 2009) but always postponed could convince entrepreneurs operating only in El Salvador expanding their business to neighbouring Central American countries to gain economies of scale. Additional research how entrepreneurs in adjacent countries deal with corruption, occupational fraud and mara crime could help them to manage these threats proactively when exporting and investing into the MCCA.

Almost all of the interviewees are managing family owned, smaller SMEs. Just two interviewees work for multinational companies. SMEs in general lack the resources which bigger companies possess and so, they may apply different strategies than multinationals. Therefore, interviewing managers of larger multinational companies operating in El Salvador and evaluating their strategies how they deal with corruption, occupational fraud and mara crime could give additional insights for SMEs.

During the interviews, the threat of mara crime came up many times. Cruz (2011) describes maras as a specific phenomenon of Central America. Many ideas exist, how governments and the public should respond to mara crime and other threats for companies operating worldwide (cf. Poole-Robb and Bailey, 2002). Developing practically oriented strategies for entrepreneurs in El Salvador, how they can reduce their exposure to organized crime in general could enrich the findings of this research. Therefore, further research is suggested in elaborating, what strategies Central American entrepreneurs should apply to deal with crime in general.
Reflective Diary

"Nil volenti difficile" - Nothing is difficult for him who has the will. (Unknown)

Before I started taking part in the DBA programme of the University of Surrey, I have always been thinking and working on the practical side of life. After I got my high school degree, I did an apprenticeship at a bank and afterwards enrolled at an University for Applied Science, where I first achieved an undergraduate degree in business and economics and then a M.B.A.

At the beginning of my working career, my approach how to get problems solved was focused on a quick, cost efficient and pragmatic way and I worked mostly operatively instead of strategically. However, when climbing up the career ladder, I recognized that within my current position as a CEO of a holding company operating and managing seven companies worldwide, I also have to apply a stronger strategic, academic approach to solve complex problems. I realized that a DBA would be a good opportunity to personally grow into the intended direction.

When I applied for the DBA programme of the University of Surrey, I knew that I would have to bring in a lot of my personal, valuable time and would have to make a trade-off between relaxing from a hard working day and working for the DBA. At the beginning of the programme, the five taught modules and their assignments have been really hard to manage due to timely constraints caused by unexpected issues coming up in my company. Within that period, I learned to spend my time reasonably which helped me to complete the modules in time without asking for any extensions for the assignments. This approach was similar to my own working environment, where I have to deliver results on time and where I am already familiar with distinguishing between "urgent" topics and "important" topics. Finally, the experience of personal commitment to the DBA grew within the programme and now helps me to manage various professional and personal projects simultaneously as well as to say sometimes "no" and to delegate tasks to others.
The five taught modules helped me to enrich my professional as well as my personal skills and also had been the foundation to accomplish my thesis, since the modules were interrelated with my research project. Each module helped me to get new insights into academia. For example, I have never been in touch with philosophy and therefore, I was never interested in philosophy. The module "philosophical underpinnings" brought up the desire to learn more about philosophy. I started reading philosophical books and just by accident, I met an old friend whom I have not met for years. He teaches philosophy and I had some interesting conversations with him about this topic. He gave me valuable information how to gather information for sensitive, loaded topics like corruption and fraud. I have been able to apply philosophical knowledge to my DBA thesis as well as to my working practice.

The chapter critical reading and writing helped me to progress in several aspects. First, I learned to approach new topics in a structured, academic way. For example, we had to evaluate an article discussing total quality management (TQM). I just knew a few things about TQM. So, I started reading literature concerning TQM and I finally had been able to evaluate this article critically based on my recently acquired knowledge. In addition, this exercise helped me to evaluate the quality of academic articles for my DBA as well as for my daily work. I became familiar with evaluating information not as "given facts" but learned to ask questions about the quality of the article as well as the "bias" of the informant. Finally, I became familiar in processing and triangulating information in a structured way to get a broader picture.

The module quantitative research methods dealt with statistics. During my undergraduate studies, I had to take classes in statistics, however the classes had been just focused on how to calculate the data but not how to apply this knowledge practically. In contrast, the DBA assignment was practically oriented and the software SPSS was easy to apply. The aim of this assignment was not the "calculation" but the "interpretation" of the data including preparing easy reading graphics. So, that assignment was a lot of fun for me and I graded well.
In summary, the taught modules helped me for my professional career in various ways: (1) to solve management problems in a structured way (2) to evaluate information, literature and reports critically (3) to apply quantitative and qualitative methods to solve problems, (4) to think out of the box and to answer complex management questions, (5) to present solutions for management problems in a structured way to others, (6) and finally to continuously learn staying up to date and not working with obsolete knowledge.

When I had to define and to structure my DBA thesis, my topic has been defined too broadly at first. During the thesis writing, I learned that it is almost impossible to bring in all acquired knowledge but I had to focus on specific parts in more depth and I also had to restrict the volume of the text. Therefore, the DBA helped me in focusing within my daily work as well as in restricting the amount of information provided to others, because sometimes “less is more”.

The DBA programme has been designed for part time students to gain knowledge and outcomes, which have to be closely related to real business life. When I discussed my research topic with my professors, I defined a field, which indeed became a practical issue in our company: “How to avoid corruption and occupational fraud”. The literature review, the fieldwork and the conclusions of my thesis allowed me to apply this knowledge directly to my work environment and to grow with respect to academic work as well as to professional talks in my company. Due to the fact, that I had to deal with corruption and occupational fraud in the real world, I have been able to triangulate and to enrich my academic knowledge with practical knowledge. Doig (1998, p. 99) states, that “corruption has long held a specialist academic interest, it has become the growing practitioner attention and is beginning to move significantly form theory to practice” and in my case, this became really true, because I have been able to apply my knowledge directly in daily business challenges.

Constant meetings and conference calls with my supervisor helped me to accomplish my goals. He helped me to develop my work and he gave me valuable guidance how to accomplish my thesis. My supervisor supported me on the one hand to develop new perspectives and on the other hand to focus on the essentials.
During the fieldwork, I learned how to deal with a certain level of uncertainty. Together with the local German Chamber of Commerce in El Salvador, I developed a tight schedule for the interviews. However, when I arrived in El Salvador, appointments just for four instead of twenty-four interviews had been made by my contact. With the help of my relatives, their friends and others, I finally could interview twenty-two managers within two weeks. This was an unexpected obstacle, because I had to focus on the interviews and also on finding interview partners, which had been willing to discuss such sensitive topics like corruption and occupational fraud. Some tasks took longer than expected, because I had to rely on others, which excused them always with "mañana" – everything will be done tomorrow. After a few interviews in an unknown cultural environment, I gained confidence as an interviewer and I had been able to collect qualitative knowledge in a way that "current experiences were shaped by the organizational history, especially through myths and stories" (Länsisalmi et al., 2004, p. 249). Now, I feel confident to work with a higher level of uncertainty in another cultural environment.

One thing I learned during the literature review was that collecting information about a specific research question alone is not enough and that one has to focus on selecting the right information and to bring that information quickly into the right structure. The best thing to do so is finding an early starting point with structuring and writing down the pieces of information. This process will help to proceed with the literature review and to gather additional information in the "following loops". This is a lesson, which I have already applied to accomplish upcoming tasks in my business life.

So, in summary, the DBA was a very interesting learning experience for me and helped me to grow personally. The programme supported me to increase my confidence in solving unexpected problems in a well structured way in my private as well as in my professional life.
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191


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211


Appendix A

Questionnaire as a guideline for the semi-structured interview

Which of the following strategies could help you and other investors to fight against corruption and occupational fraud in their companies in El Salvador?

<table>
<thead>
<tr>
<th>Detection of corruption and occupational fraud</th>
<th>Very helpful</th>
<th>helpful</th>
<th>Less helpful</th>
<th>Not helpful</th>
<th>I don’t know</th>
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<tbody>
<tr>
<td>Mapping and assessing possible risks in advance</td>
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<td>Knowing where one in vulnerable</td>
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<td>Learning from past incidents and from others</td>
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<tr>
<td>Applying regular controls</td>
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<tr>
<td>Regular reviews</td>
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<tr>
<td>Cost benefit analysis of the controls</td>
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<table>
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<tr>
<th>Ethical issues</th>
<th>Very helpful</th>
<th>helpful</th>
<th>Less helpful</th>
<th>Not helpful</th>
<th>I don’t know</th>
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<tbody>
<tr>
<td>“Anti corruption” is part of the company culture</td>
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<td>Implementing codes of ethics and live them</td>
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<td>Top management gives good examples</td>
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<td>Fostering mutual trust in the company</td>
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<td>Avoiding “grey” zones (e.g. gifts, entertainment)</td>
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### Organizational issues

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<th>Very helpful</th>
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<th>Less helpful</th>
<th>Not helpful</th>
<th>I don't know</th>
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<tr>
<td>Implementing transparent processes</td>
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<tr>
<td>Separation between business and private sphere</td>
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<tr>
<td>Implementing the “four eyes principle”</td>
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<td>Asset security (e.g. locking warehouses)</td>
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<tr>
<td>Separation of functions and power</td>
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<tr>
<td>Implementing a whistle blower hotline</td>
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<tr>
<td>Implementing a compliance manager</td>
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<tr>
<td>Location and security of sensitive functions (e.g. IT)</td>
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<tr>
<td>Implementing an anti-corruption reporting system</td>
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<tr>
<td>Allowing enough resources and funds for corruption prevention activities</td>
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<tr>
<td>Integrating suppliers and customers into anti-corruption activities</td>
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</table>

### Human resources

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<tr>
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<th>Very helpful</th>
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<th>Not helpful</th>
<th>I don't know</th>
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</thead>
<tbody>
<tr>
<td>Screening applicants in advance</td>
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<tr>
<td>Hiring trusted and competent employees</td>
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<tr>
<td>Paying acceptable salaries</td>
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<tr>
<td>Strictly prosecuting offenders, applying stiff penalties</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Eliminating unnecessary positions</td>
<td></td>
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<tr>
<td>Rotating staff</td>
<td></td>
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<tr>
<td>Training employees</td>
<td></td>
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</tr>
</tbody>
</table>
### Dealing with third parties

<table>
<thead>
<tr>
<th></th>
<th>Very helpful</th>
<th>helpful</th>
<th>Less helpful</th>
<th>Not helpful</th>
<th>I don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closely observing the value chain (e.g. purchasing)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Working together with other companies</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Benchmarking with others</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Closely observing outsourced activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Implementing the same standards on suppliers and customers</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Working together with governmental organizations (e.g. TEG)</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

### Strategic issues

<table>
<thead>
<tr>
<th></th>
<th>Very helpful</th>
<th>helpful</th>
<th>Less helpful</th>
<th>Not helpful</th>
<th>I don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avoiding certain markets / industries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safeguarding against unforeseen risk</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tailoring the strategies to the social and cultural environment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Living with a “certain” level of corruption</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Other ideas:
Appendix B
Evaluation of the strategies of the interviewees
22 interviews have been held

**How to avoid corruption:**

Table 4: evaluation of the strategies (corruption)

<table>
<thead>
<tr>
<th>Strategy</th>
<th>&quot;I agree&quot;</th>
<th>&quot;I do not agree&quot;</th>
<th>No statement during the interview</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avoiding business with the government</td>
<td>19</td>
<td>2</td>
<td>1</td>
<td>One interviewee did not agree, because corruption in his business is no longer an issue, the other person works for a governmental organization trying to reduce corruption</td>
</tr>
<tr>
<td>Management giving a good example</td>
<td>17</td>
<td>1</td>
<td>4</td>
<td>The interviewee disagreeing states, that there are always bad apples among employees</td>
</tr>
<tr>
<td>Strictly saying no to corruption</td>
<td>11</td>
<td>11</td>
<td>0</td>
<td>All interviewees initially stated that they say no to corruption, but during the interviews, some of them admitted, that they would do small bribes to get a desperately needed service</td>
</tr>
<tr>
<td>Tolerating a certain level of corruption</td>
<td>11</td>
<td>4</td>
<td>7</td>
<td>The ones agreeing think that this is a cultural issue and the cost-benefit calculation results in doing so</td>
</tr>
<tr>
<td>Patience and being in a favourable position not to bribe</td>
<td>10</td>
<td>4</td>
<td>8</td>
<td>The interviewees disagreeing are not in a favourable position or the cost-benefit calculation results that it is better for them to bribe to get desperately needed services</td>
</tr>
<tr>
<td>Always following the rules</td>
<td>4</td>
<td>3</td>
<td>15</td>
<td>The interviewees disagreeing mentioned that they could not reach their business goals without doing so</td>
</tr>
<tr>
<td>Using intermediaries to do the dirty work</td>
<td>4</td>
<td>1</td>
<td>17</td>
<td>This is a business strategy for four companies, one company uses lobbyists working with the government to support their business</td>
</tr>
</tbody>
</table>
## How to avoid occupational fraud:

Table 5: evaluation of the strategies (occupational fraud)

<table>
<thead>
<tr>
<th>Strategy</th>
<th>&quot;I agree&quot;</th>
<th>&quot;I do not agree&quot;</th>
<th>No statement during the interview</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Tropicalizing the strategies&quot;</td>
<td>22</td>
<td>0</td>
<td>0</td>
<td>While this strategy is applied intuitively by native El Salvadorians, this strategy had to be learned by foreign investors.</td>
</tr>
<tr>
<td>Hiring trusted people and having trusted people in key positions</td>
<td>21</td>
<td>0</td>
<td>1</td>
<td>The person without a statement works for a NGO and has never worked in the private sector.</td>
</tr>
<tr>
<td>Knowing one's business and therefore knowing where one is vulnerable</td>
<td>21</td>
<td>0</td>
<td>1</td>
<td>The person without a statement works for a NGO and has never worked in the private sector.</td>
</tr>
<tr>
<td>Paying employees well, treating them fair and taking care of them</td>
<td>21</td>
<td>0</td>
<td>1</td>
<td>The person without a statement works for a NGO and has never worked in the private sector. Some of the supporters state that good payment does not automatically avoid occupational fraud.</td>
</tr>
<tr>
<td>Strictly prosecuting offenders</td>
<td>21</td>
<td>0</td>
<td>1</td>
<td>While most of the supporters would fire an offender immediately, some of them would give an offender a second chance. The person without a statement works for a NGO and has never worked in the private sector.</td>
</tr>
<tr>
<td>Controlling employees and continuous controls within the company</td>
<td>20</td>
<td>1</td>
<td>1</td>
<td>Most of the supporters have also done a cost-benefit calculation of the controls. The person disagreeing states that too many controls are contra productive and that people will always find ways to circumvent controls. The person without a statement works for a NGO and has never worked in the private sector.</td>
</tr>
<tr>
<td>Learning from past incidents and as a result adopting strategies</td>
<td>18</td>
<td>0</td>
<td>4</td>
<td>Two supporters mentioned that it is difficult to be always one step ahead of a perpetrator.</td>
</tr>
<tr>
<td>Strategy</td>
<td>&quot;I agree&quot;</td>
<td>&quot;I do not agree&quot;</td>
<td>No statement during the interview</td>
<td>Comments</td>
</tr>
<tr>
<td>----------</td>
<td>-----------</td>
<td>------------------</td>
<td>----------------------------------</td>
<td>----------</td>
</tr>
<tr>
<td>Implementing organizational and physical issues including electronic surveillance devices and guards</td>
<td>18</td>
<td>1</td>
<td>3</td>
<td>Most of the supporters have done a cost benefit calculation which makes these issues worth it. The opponent of this strategy states, as well as some supporters state that people will always find a way to circumvent the controls.</td>
</tr>
<tr>
<td>Management giving a good example</td>
<td>17</td>
<td>1</td>
<td>4</td>
<td>The interviewee disagreeing states, that there are always bad apples among employees.</td>
</tr>
<tr>
<td>Implementing written codes of ethics</td>
<td>13</td>
<td>8</td>
<td>1</td>
<td>Among the supporters are just 10 companies, which have implemented them. The companies for which this is not a good strategy state that they are too small for doing this or they state, that their people know the codes anyway, even if they are not written down. The person without a statement works for a NGO and has never worked in the private sector.</td>
</tr>
<tr>
<td>Working together with others and benchmarking with others</td>
<td>13</td>
<td>8</td>
<td>1</td>
<td>The supporters of this strategy mainly work together with trusted others, because they, as well as the opponents state, that the problem is to get honest answers from others, which may feel losing their reputation when they tell about occupation fraud happening in their organization.</td>
</tr>
<tr>
<td>Maintaining a good business climate</td>
<td>8</td>
<td>0</td>
<td>14</td>
<td>One of the supporters objects that one should not be too close with the employees, because this could result in being betrayed by the employees (this is a cultural issue).</td>
</tr>
<tr>
<td>Focussing and streamlining the business</td>
<td>8</td>
<td>0</td>
<td>14</td>
<td>Focussing the business and eliminating unnecessary business helps to keep the structures simple and transparent.</td>
</tr>
<tr>
<td>Strategy</td>
<td>&quot;I agree&quot;</td>
<td>&quot;I do not agree&quot;</td>
<td>No statement during the interview</td>
<td>Comments</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>-----------</td>
<td>------------------</td>
<td>-----------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Implementing job rotation</td>
<td>6</td>
<td>6</td>
<td>10</td>
<td>Most of the companies are too small for job rotation, Among the supporters are just three companies doing job rotation but mainly for training reasons, two companies support job rotations but do no job rotation in their companies, one company does job rotation only to cover workload during vacation</td>
</tr>
<tr>
<td>Certifying the company e.g. ISO 900 or BASC</td>
<td>5</td>
<td>0</td>
<td>17</td>
<td>A certification helps companies to describe and document their processes thus helping to find weaknesses.</td>
</tr>
<tr>
<td>Downsizing the company and keeping the company small</td>
<td>4</td>
<td>0</td>
<td>18</td>
<td>Most of the companies are small companies, so for them, this is not an issue to mention.</td>
</tr>
<tr>
<td>Checking outsourced activities</td>
<td>3</td>
<td>6</td>
<td>13</td>
<td>The interviewees disagreeing had either no outsourced activities or had explicitly stated that they do not control their outsourced activities</td>
</tr>
<tr>
<td>Implementing a whistle blower hotline</td>
<td>3</td>
<td>12</td>
<td>7</td>
<td>The people who do not support this strategy state, that this strategy will not work in El Salvador due to cultural issues. Some state that in their organization exists an informal whistle blower hotline, which will inform them, if fraud would have taken place in their company. Among the interviewees without a statement are people, who do not know about this strategy or who work for a NGO and have never worked in the private sector.</td>
</tr>
<tr>
<td>Insuring against occupational fraud</td>
<td>2</td>
<td>0</td>
<td>20</td>
<td>The companies supporting this strategy have insured themselves against robbery or against risks from occupational fraud</td>
</tr>
</tbody>
</table>
How to deal with mara crime:

Table 6: evaluation of the strategies (mara crime)

<table>
<thead>
<tr>
<th>Issue</th>
<th>„ I agree“</th>
<th>„I do not agree“</th>
<th>No statement during the interview</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maras are an increasing threat for entrepreneurs</td>
<td>12</td>
<td>3</td>
<td>7</td>
<td>The interviewees which do not agree refer to a peace agreement among the few bigger gangs, which is in operation since the beginning of 2012.</td>
</tr>
<tr>
<td>Maras are a threat for my business (directly or indirectly)</td>
<td>6</td>
<td>6</td>
<td>10</td>
<td>Fewer interviewees state that they are personally affected by maras, than they state that entrepreneurs in general are affected, because they are personally out of the scope of maras (small business in the informal sector, mom and pops, bus drivers)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Strategy</th>
<th>„ I agree“</th>
<th>„I do not agree“</th>
<th>No statement during the interview</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avoiding an excessive life style</td>
<td>9</td>
<td>0</td>
<td>13</td>
<td>All supporters state, that a luxurious life will attract maras trying to extort them.</td>
</tr>
<tr>
<td>Avoiding specific areas, businesses and locations</td>
<td>9</td>
<td>0</td>
<td>13</td>
<td>All of the interviewees agreeing to this strategy except one have not been involved in mara crime</td>
</tr>
<tr>
<td>Not responding on attacks and rejecting any attempted extortions</td>
<td>3</td>
<td>0</td>
<td>19</td>
<td>One of the interviewees agreeing to this strategy has been violently attacked to pay, but he rejected</td>
</tr>
<tr>
<td>Asking police for help</td>
<td>2</td>
<td>0</td>
<td>20</td>
<td>One of the interviewees agreeing to ask police also states, that police is corrupt and will not help</td>
</tr>
<tr>
<td>Cooperating with maras</td>
<td>2</td>
<td>0</td>
<td>20</td>
<td>One of the supporters even supports mara members imprisoned</td>
</tr>
</tbody>
</table>
Appendix C

The following example of a coded transcript shows the process to distil and cluster information taken during an interview. To protect the interviewee, the history of the company, his name and other information, which could identify the interviewee or the company, have been deleted.

**History and description of the company:**

Not disclosed

**Information taken during the interview:**

- **Red** is coded for corruption.
- **Yellow** is coded for occupational fraud.
- **Green** is coded for mara crime

- He found out, that not only growing your business, but also consolidating it can be a strategy to increase profitability. He now makes more profit than before (higher margins) because he focuses on smaller customers, where he can charge higher prices. **Shrinking and downsizing business.**
- Through the consolidation, the management of the remaining companies has become more efficient and he has a better control of the businesses. He can focus on fewer economic areas and be more in depth with the remaining businesses. As a result, he was able to reduce corruption and occupational fraud in his group. **Implementing controls.**
- Important functions like accounting or warehousing are shared with all companies and are located separately. **Relocating sensitive functions.**
- In addition, for him it is essential to control his overheads. When a manager knows his costs of goods sold, margins and overheads, he can detect and control corruption and occupational fraud very easily. **Knowing ones business, strict controls, looking for red flags.**
- He does not do business with government. Once, he has been asked to service public busses, but the manager of the public entity asked for kickbacks and employees asked for fake invoices to betray their employer or other favours. In addition, these public entities had a lot of red tape, when one wants to do business with them and they pay their invoices very late. **No business with government.**
- He also does not do business with bigger companies, because a lot of their purchasing departments are very corrupt, there exists less peer control and they also ask for kickbacks. **Selecting customers carefully**
- He has split up all of his companies into small entities with few people. So, the sales volumes as well as the overheads within each of these companies are comparatively small.
  - He can better control the overheads, because even small deviations are visible. **Watching for red flags.**
Red flags always pop up in sales, costs of goods sold or overheads. As a result, even small deviations, which could be caused by corrupt activities in the company, are visible. Watching for red flags.

The small number of employees reduces the level of corruption, because there is a strong peer control within each entity. HR- controls, selecting the right people.

Smaller companies are more flexible with less bureaucracy and fewer positions, which help to reduce occupational fraud. Reducing red tape.

Once, he desperately wanted to get the transport business for a big supermarket chain. He was asked for a bribe of 50,000 USD by the purchasing manager. This was the first time, he did pay the bribe. However, someone else got the business. He lost the 50,000 USD because he had no chance to sue the corrupt manager in front of the court, because he himself behaved illegally. Learning from past incidents.

HR:

Most of his employees are also church members of his parish (a very strict catholic church), which he knows very well. As a result, these members with their strong belief are not very prone to corruption and occupational fraud. Hiring the right people.

He employs high skilled, educated people, which are less prone to corruption and occupational fraud. Hiring skilled people.

He pays his people well above the average, but Mr. X also states, that even good payment does not automatically reduce the level of occupational fraud. Paying people well.

He has downsized his company, so he got rid of unnecessary positions and he also got rid of bad apples. Eliminating unnecessary positions.

He applies polygraph testing and voice recording. Controlling employees.

He asks the people for their solvencia (certificate of conduct) and a solvencia policia (police clearance certificate). Controlling employees.

He checks the credit records of his employees when he hires them and also, when an occupational fraud has taken place at the person's workplace, because people who are highly indebted are more prone to corruption, because they need additional income. Controlling employees.

Mr. X also operates a cooperative for all of his businesses. People can buy things for a better rate, they can put their money to the cooperative and get better rates and they also can get loans at a better rate. Almost 280 of his 300 people are members of this cooperative. Taking care of employees.

He has written codes of ethics, and in addition, each employee knows his Christian codes of ethics. Implementing written codes of ethics.

His purchase department has to offer at least three quotes and each check, which is issued to a supplier, is cross checked with the invoice. Bigger checks have to be signed by Mr. X himself. The purchasing department is the only department, which is not centralized, because in each entity, he needs experts for the specific products. In addition, each manager, who also knows his entity very well, is better able to supervise the purchasing department. Supervising sensitive functions, separation of power.
• He has downsized his company and in doing so, he really increased profitability because he became more flexible and he had a better control of the companies, so, he was able to see red flags earlier and he could detect corruption and occupational fraud earlier. His motto is: “sales are vanity, profit is sanity. The small sizes of these companies and the clear business focus of each company also allow him to know, where each entity is vulnerable to corruption and occupational fraud. Streamlining the business, downsizing the business, eliminating unnecessary functions.

• In his trucking business, drivers had been very lazy. However, the competition is very tough and he had to save costs to stay in business. For example, the drivers stole diesel from the tanks and sold them on the black market. First of all, he sealed the lids of the tanks and he put paint marks on the various release screws and valves within the fuel system to prevent them from stealing diesel. However, it is not possible to seal all the pipes. Therefore, he started to pay the drivers a premium, if they achieved a higher mileage per gallon. He also pays bonuses for better performance (e.g. exact delivery time, good maintenance of the trucks. Learning from past incidents, updating controls, knowing one’s business.

• All of his trucks are equipped with GPS and he was bought software, so, his fleet manager exactly knows where the trucks are located. This also helps him to track his trucks and the drivers, if they are high jacked. Installing technical devices.

• He also hired a technical consultant, who helped him to reduce the costs of operating the trucks (e.g. buying trucks with more suitable engines, preventing truck drivers from replacing spare parts in the trucks, which are o.k. with rotten ones, selling the good ones on the black market and then claiming a repair. Asking for external knowledge and external experts.

• Mr. X also applies polygraph testing, when he hires new people of lower ranks or when unusual thefts have happened. However, the employees know where to buy pills, which can help them to pass the testing, although they had been lying. So, Mr. X has also introduced the testing with voice recording, where it is more difficult to cheat. Controlling applicants and employees.

• Mr. X knows that especially the processes dealing with cash or cheques have to be carefully observed. Within his businesses, three trusted people manage the cash transactions and also control each other dealing with cash. Trusted people support management in controlling operations.

• However, in general, Mr. X avoids cash transactions, where possible. Once, he gave an employee cash to pay for the renewal of the driver licences of his truck drivers. However, that lady did not renew the licences and stole the money instead. This came out, when one of the drivers has been controlled by the police, who found out that the licences have been expired. He immediately fired that person, who was in desperate need for the money. He started a court file and he also insisted, that she has to pay back all of the money in monthly instalments for years. In addition, he monitors employees dealing with money very closely when there pops up a loss of money. However, he accepts one mistake, but when that person makes another mistake, he fires him or her.
Strictly prosecuting offenders, knowing one’s business, controlling sensitive functions.

- He made his strict prosecution public within the company as a deterrent example for possible offenders and also for dealing with the government. When he is asked for a bribe, he just walks away from this business. **Strictly saying no to corruption.**
- Due to the small size of his companies, the amounts paid with checks are very small. However, if bigger checks have to be signed, it is done by himself or a trusted manager as his deputy. As a result, any possible loss due to check fraud from his employees is very small. **Separation of power.**
- He also has regular external auditors in his companies, which help him to detect corruption and occupational fraud. On the other hand, such controls are very expensive, but Mr. X thinks, that the cost-benefit analysis of all of his controls supports them. **External audits and certifications.**
- Within his business, Mr. X asks for a stock count on a monthly base. Although this requires a lot of manpower, it is worth it, because personnel are less expensive than in Germany. In addition, if the stock counts are done within short periods, the cause of the loss can be followed easily and accounting always calculates with accurate numbers. **Implementing strict controls.**
- He also asks his accountants to deliver the monthly reports very quickly, so that the numbers disclose any possible fraud and the occurrence can be detected and followed very quickly, which increases the chance to find the perpetrator. **Looking for red flags. Trying to be one step ahead of fraudsters.**
- In his hotel business, he was not willing to pay a bribe to get the chance to buy a road dividing his two lots, but he mentioned that he will wait. **Being in a favourable position, patience not to bribe, having enough funds to do so.**
- All of the trucks are equipped with GPS location controls. When a robbery of one of his trucks happens, he knows exactly where this has happened. Unfortunately, very often, the truck drivers cooperate with the hijackers and give them hints in exchange for a commission. So, Mr. X closely observes the hijacked truck driver and sometimes he also makes a polygraph test with him. He also checks his credit records with the banks to find out, if that person is in financial need. He also looks for red flags (e.g. that person spends more money than usual). In addition, he cross-checks the police records of the employee, because sometimes, that records are faked. Unfortunately, it is very difficult to catch corrupt truck drivers. **Closely observing employees, looking for red flags, implementing the latest technology.**
- In general, Mr. X has “tropicalized” his activities to fight against corruption and occupational fraud, because a lot of activities, which work in the first world, will not work in emerging economies or will not work in other societies. **Tropicalizing the strategies to the environment of El Salvador.**
- Unfortunately, he admits, that although he does not bribe in regular business, it is sometimes absolutely necessary to pay small fees to get urgently needed permissions or papers from the government. For example, he once needed a building permit for one of his businesses. Although he did completely comply with the rules, he was asked for a special fee of 500 USD to get the permission.
in time, because getting permissions always take forever. Filing for a court rule with a lawyer would have cost him 5,000 USD and a lot more time, so he did pay that special fee. Mr. X mentions, that although everybody has to set an example to fight against corruption, it is also necessary to know, where ones limits are. He thinks that it is ridiculous to bother about such small sums, because this is a fight, where he is not in the position to win. One has to use common sense to do his business. He also takes the Pareto Principle into account, when he has to decide to pay such special fees. He states, that 95% of the business to get permissions are o.k., but in 5% of the cases, bribing small amounts up to 100 USD are the case. Tolerating a certain level of corruption.

- Mr. X states, that the main reason for corruption is not the poverty of his country, but more, that the whole world in general is more indebted and therefore in desperate need to generate additional income. When one is doing global business e.g. with Asian business partners, even honest business partners e.g. from Germany will be involved into corrupt activities. So, corruption can be “imported” from other countries. Teaching employees how to manage their finances and helping them financially.

- Mr. X states, that he has no problem with customs, because his employees prepare the customs papers very well and so, there is no need for him to bribe. Strictly following the rules.

- In general, doing business with the government result in being involved into corruption. For Mr. X, these main areas are energy, water, electricity, construction and waste management. Avoiding business with the government.

- Mr. X has no compliance manager within the group, but his managers as well as he himself are illuminative good examples to avoid corruption and occupational fraud. Management has to give an illuminative good example.

- Everyone in the company knows that whenever Mr. X is faced with corruption, he will not pay and at the worst, will stop that business. Strictly saying no to corruption.

- Mr. X is not working together with other organizations to fight against corruption. Working together with others is not a good strategy.

- Mr. X sometimes benchmarks his anti fraud strategies with trusted others (he is a member in various business circles and organizations). However, the problem is that a lot of the members do not openly speak about corruption and occupational fraud in their business. They do not share information, because they care too much about their reputation. As a result, he also does not disclose information with everyone. Working together with others is not a good idea.

- Mr. X has a good working climate, which also makes him less vulnerable to corruption and occupational fraud. He treats his personnel very well, which results in a low turnover. After some time, Mr. X offers trusted managers a minority partnership in his businesses, which also helps to avoid occupation fraud. Maintaining a good business climate.

- As an organizational issue, Mr. X has separated power and control, where applicable and he always tries to build up additional hurdles to avoid corruption and occupational fraud (e.g. additional controls). Separation of power and control.
• Mr. X does not agree to live with a certain level of corruption, because:
  o What is a small degree of corruption?
  o Small can grow bigger within the time
  o Society will finally get the bill for tolerating corruption (e.g. a poor infrastructure) strictly saying no to corruption.
• Mr. X has his IT systems for all the businesses centralized and located in a secured backroom. He frequently makes backups and he also controls, which person gets which information. His IT managers have a lot of power to manage that information of information, because they know very well, how much information from the systems is really necessary to do the job. The IT managers are very trusted people. Hiring trusted people. Putting sensitive function into separate locations. Managing the level of information given to each employee.
• Mr. X rotates his employees within his businesses, but just for training issues and not to prevent occupational fraud. Job rotation is not a prudent strategy.
• Mr. X has located all of his premises into secure area, where the chance to be harmed by maras is considerably low. His business is guarded 24/7. He lives in a gated community and lives an inconspicuous life. Location of the business, installing guards, not leading an opulent life.