GSK: Early Lessons Learned from the Chinese Bribery Scandal
Today’s Speakers

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Agenda

• Background on GSK event
• Early lessons learned and Third Party best practices
• GSK lesson focus: How Third Party Risk Management and Hotline should work together
• GSK lesson focus: Managing Third Party Risk in Asia
• Next steps: Questions to ask your team
GSK Scandal

“GlaxoSmithKline 'the big boss' in £300m bribery scandal, China says”

• China accused GSK of a sophisticated money laundering operation using more than 700 agents and travel agencies to bribe government officials, medical associations, hospitals and doctors to boost sales

• Bribes were in the form of cash and sexual favors
## Timeline and Fallout

<table>
<thead>
<tr>
<th>Date</th>
<th>Breaking News</th>
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<tr>
<td>June 27</td>
<td>Report of GSK employees in Shanghai and Beijing detained by police</td>
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<td>June 28</td>
<td>Changsha police announce investigations of high-level GSK executives for economic crimes</td>
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<td>July 11</td>
<td>Chinese government announced that executives from GSK China are being investigated for bribery</td>
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<td>July 14</td>
<td>China investigating at least four multinational drug makers. Several Chinese senior executives and other employees from pharmaceutical companies and travel agencies detained for bribery charges. GSK employees arrested: 30.</td>
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<td>October 16</td>
<td>Head of GSK’s China operations barred from leaving the country</td>
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<td>October 23</td>
<td>GSK China reported 61% decline in sales, with competitors gaining market share</td>
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Early Lessons Learned and Third Party Best Practices
Here's What We Know:

- Involves the use of a travel agency
- Company already had several travel agency vendors in China
- $489 million in funds transferred to travel agencies since 2007
- Whistleblower investigation failed to uncover problems
Lesson One: Third Party Relationship Ownership and Business Justification

- Do we establish ownership of third party relationships?
- Do we have ownership continuity?
- Do we require a business justification for a new relationship?
Lesson Two: Risk-Based Approach

- Certain types of products and services are higher risk – e.g. travel agencies
- A risk-based approach puts more resources against higher potential risk
- Ongoing monitoring should follow the same approach
Lesson Three: Transaction Monitoring

- Expected timing and size of transactions should be captured at beginning of relationship
- Ongoing monitoring or periodic audits should check actual vs. approved
- Also check bank routing – actual vs. approved
GSK Lesson Focus:
How Third Party Risk Management and Hotline Should Work Together
The Whistleblower Report

An anonymous whistleblower at GSK alleged that Glaxo's China-based sales staff was involved in widespread bribery of doctors to prescribe drugs

• News sources reported that GSK's internal investigation of the allegations found no evidence of bribery or corruption
The Role of a Third Party Risk Program

Third party risk program would have surfaced red flags

- Unusual payments – size and frequency
- High risk business partners
- Too many suppliers in one category (e.g., travel agencies)
Linking the Hotline & Third Party Risk System

A hotline/case management system should be linked to a robust third party risk program to aide investigations involving these business partners.
GSK Lesson Focus:
Managing Third Party Risk in Asia
Third Party Risk and Asia

- Evolution of conduits to channel payments
  - Travel agencies are not a typical vendor type to go through anti-corruption review, but may go through a supplier risk management program
  - Simple method that would work beyond travel agencies
  - Travel agencies are not new conduits for payments
    - An opportunistic conduit, given travel agencies are still largely used in Asia (unlike the West); it’s a competitive business
  - Chinese authorities only publicly alerted (first) the concern with travel agencies – hence the speculation on “travel industry”
Third Party Risk and Asia

Identify Gaps in Processes and Systems:

- Identify departments that share similar risks (e.g., Corp Services, Legal, HR, Finance)
- Test internal systems (automated or manual) between departments to find synergies between risks
- Test policy frameworks by geographical location and business unit
- Conduct full risk assessments to identify areas of improvement and report these to senior management for support.
Third Party Risk and Asia

- Future risk mitigation
  - Technology implementation to automate processes and procedures to minimize reaction time
  - Policy and procedure consolidation to eliminate geographical and business unit differentiation
  - Vendor risk allocation should be calculated and prioritized
  - Employee accountability through incident recordkeeping that follows a strict violation protocol
  - Consolidation of vendors by signing Master Service Agreements
  - Socialization of legal and compliance services to business leaders and executive management
Next Steps: Questions to Ask Your Team

• If you have a third party risk program, who has access to it? (e.g., Legal, Procurement, Compliance, Risk Management)

• Is the program widely publicized to those who may need it?

• What information does your current third party due diligence system collect and vet? Initially only or in ongoing manner?
Next Steps: More Questions to ask your team

- Do we justify new business relationships and assign ownership?
- Do we take a risk-based approach to evaluating business partners?
- Do we follow-up with monitoring or audits of transactions – especially for higher risk relationships?
Survey Question:

Would you like a NAVEX Global representative to contact you to discuss solutions?

A. Yes, Please
B. No, Thank You
Questions...
Thank You

Please be sure to visit the Exhibit Hall & Social Networking Lounge to speak with Industry Experts!