



Risky Business Conference

Organised Crime – the business perspective

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Thank you and good afternoon.

I am delighted to have this opportunity to talk to you at today's conference and to provide a wider business and economic perspective to the conference.

For those that don't know us, SCDI is an independent economic development organisation. We aim to influence government policy to create a stronger environment for growth here in Scotland.

Our key role since we formed in 1931 has been to lead the debate on delivering stronger economic growth in Scotland. Indeed we were formed in similar circumstances to today, as a means of bringing industrialists and politicians together to look at ways to support Scotland through the Great Depression. Over the years we have delivered pioneering work on promoting overseas trade, attracting inward investment and delivering an economic legacy from the discovery of oil and gas in the North Sea.

We are known for our innovative thinking and practical solutions and have a strong track record of delivery on behalf of our members.

This legacy, and our broad membership base – large and small businesses, the trade unions, local and national government, and academia – means that we have access to a vast range of skills, expertise and ideas across our organisation.

Our role as an organisation is to connect these different parts of the economy, to drive forward new thinking and practical ideas on how to make Scotland a better place to live, work and do business.

And today our role is as vital, perhaps even more so than in previous years. In recent months, we have sought to work in partnership with our members and government to help support the economy and to mitigate the impact of the credit crunch and recession on the Scottish economy and indeed our support at today's conference forms part of that programme.

The Scottish economy has not been immune to the financial tsunami sweeping the globe. From a relatively strong performing base in key sectors such as finance, insurance and construction we have witnessed the very public demise of organisations such as RBS and HBOS. We have not been immune to the impact of the credit squeeze and have seen many of our Scottish based companies reduce staff, reduce overheads and struggle to remain viable as demand and margins fall and capital becomes scarce.

2009 is set to be a tough year for the Scottish economy, with key indicators such as business confidence, order books, and investment decisions weakening. And despite the depreciation of sterling, exports have also fallen as key markets abroad have also stalled or contracted. Recent reports suggest that in the last 3 months we are losing jobs in Scotland at the rate of 140 per day. And whilst, the Scottish unemployment rate still lags behind that of the rest of the UK we expect this to reverse over the coming months. All of this adds pressure in communities, in the workplace and to many households.

Our business services sector in legal, accountancy, consultancy and IT are also suffering in this environment as demand for their services fall and our jewel in the crown retail sector has also been impacted by the squeeze on consumer credit, unemployment and falling house sales.

Scotland is a small business economy, there are currently some 300,000 small businesses across Scotland, many of whom are struggling to stay solvent and survive in the current climate. That's why much of our current efforts are directed to working with

both the Scottish and UK Governments to secure assistance and support to ensure business viability and employability.

It is therefore within this fragile and challenging economic environment that we need to consider the challenges of business crime and the very real threat that the “black economy” and organised crime poses to the Scottish economy

Current estimates suggest that organised crime costs the UK an estimated £20bn per annum. This amounts to £330 for every man, woman and child in the UK. In 2006, the latest year for which figures exist, individuals lost £3.7bn, companies lost £3.7bn and the public sector was defrauded of £6.8bn. In addition there was income tax and EU related fraud. Indeed, Justice Minister, Kenny MacAskill recently acknowledged that “in these days of credit crunch and economic downturn there is an increased risk from gangsters”.

The threat to the Scottish economy is very real and organised crime is one of the key threats we face in the 21st century.

The current economic situation has highlighted the economic connectivity and dependencies across the globe. Just as there are no UK or Scotland only solutions to the banking crisis so to do we live in a global village of crime. A world populated by the good, the bad and the mad and the greatest challenge that businesses face is knowing who they are doing business with and recognising that no single business, organisation or national government can fight organised crime on its own.

When we think of organised crime we think Mafia – but is this correct? We know that with few exceptions, serious and organised criminal activity is directly or indirectly concerned with making money – identifying where the opportunities and risk lie and going where the rewards are greatest. It is a wide and complex web of criminal activity and interrelationships. And one from which no business is immune.

The creation of the Scottish Crime and Drug enforcement Agency and the Serious and Organised Crime Agency (SOCA) are welcome developments to help achieve economy of effort in addressing the harm caused to the UK by serious organised crime.

But to fight organised crime, business needs more support. We need the public sector to paint a clearer definition for business of what organised crime is. We need greater clarity and understanding if business is to become more effectively engaged and to understand how organised crime operates.

Government agencies also have a responsibility to understand the threat. We recognise that this means working in partnership with colleagues across the globe. And we recognise that intelligence is the key to understanding how criminal networks work together. But we need to ensure we share this intelligence with the business community to help business better understand the threats and challenges posed to their operations.

The business community recognise that the public sector “own” the threat as they have the intelligence, but we also recognise that they do not have the resources to tackle the problem on their own. The public and business community need to work together and have a common level of intelligence, awareness and what to do about organised crime in the same way as we have with terrorism.

Business itself also needs to take on more responsibility for understanding who it is doing business with and ensuring that we conduct due diligence in our dealings with suppliers, partners, agencies etc

We need to be confident of the effectiveness of our checking and vetting procedures and methods. As Allan Moffat himself has identified many of these criminal groups understand business, commodities and structures – they understand systems, processes, procedures and supply chains.

The current economic climate has significantly increased the risk factor for all businesses from both general crime and from organised crime. And businesses need to ensure that their risk registers reflect this heightened level of threat and that this is recognised at the most senior levels across the organisation.

We have in recent weeks been working with our members to determine their views on the issue of organised crime.

During 2008, only just over 6% of our members had been a victim of serious crime, and all reported this to the Police. 43% felt that the enforcement agencies response was effective and only 16% reported a neutral rating to the response.

A small proportion of members, 13%, have reported an increase in the impact of organised crime on their business. Whilst the majority reported no change.

Whilst the majority of businesses expect the impact of crime on their business to remain the same in 2009, 23% of members expect to be spending more on crime prevention in the coming 12 months. Recognising the increased threat and risk and the changing economic environment.

The majority of our members have developed their business planning processes to reduce risks associated with serious crime activities, but worryingly around 40% of businesses completing our survey had not. Indicating a significant level of risk and exposure across the Scottish economy.

In terms of measures members would like to see implemented to tackle business crime these include – higher profile policing on industrial estates, harsher penalties, clamp down on bogus security firms and an increase in police resources directed towards specific business crime areas such as plant theft, financial fraud, mail and phone fraud

Today's conference will raise so many questions and we need to recognise that no single agency, business or organisation has all the answers.

But our members have also identified five key areas that need to be addressed within the area of organised crime.

These are in the areas of having clearer, common information and understanding of what organised crime actually is between the public and the private sector. We also need to have a joint approach and strategy to tackling organised crime and to work together at both a macro and operational level across all business sectors,

As businesses we also need to review our governance and behaviours at a corporate level, management level and as individuals. Recognising the serious nature of the risk that businesses face from organised crime and have this reported and owned at the most senior levels in an organisation. And we also recognise the need to constantly review our recruitment procedures and to ensure that our corporate values, beliefs and behaviours are reflected at all levels across the organisation.

Businesses need to better understand what organised crime is, so that we are better equipped to tackle it. At a macro level our members understand the risk from organised crime, but if they better understood how organised crime was impacting their business then they would be better placed to address it.

For example, if someone can steal identity information for personal gain (that is commit a fraud) and sell that information to a criminal who then uses this information to perpetrate a range of crimes (that is organised crimes) from a business perspective, it is very difficult to tell one from the other.

It is the pattern of the crime that reveals the organised nature of the criminal activity and this is visible only to the public agencies or police forces.

As businesses we also need to be aware of this risk, to enable us to identify processes within our operations and put appropriate controls in place to prevent this happening.

This requires a clear and jointly owned fraud strategy and policy framework owned and understood by the public and private sector. Otherwise organised crime and fraud will migrate to where controls, public agencies or the private sector are weakest.

Today's conference goes some way to addressing these issues, but we believe this needs to be seen as the start of a dialogue and working partnership on organised crime and not an end in itself.

We recognise the issues this raises for resources. And whilst our members have clearly indicated their desire to see greater policing resources allocated to business crime, we acknowledge that effective outcomes are the result of well directed effort and investment.

We believe this can be delivered through successful joint working which could involve business providing resources to public sector units to provide business with a channel to understand how best to deal with its internal issues and provide the public sector with the ability to help business.

Naturally this raises a number of questions on how we best work in partnership to achieve this. How do we work nationally to achieve economy of effort and an effective response and how do we develop that "trusted" relationship between the public and the private sector.

Naturally business would want to see a return for any investment, but with £20 billion at stake we believe that this is an area that business will wish to consider closely in the future. Business recognises that the threat from organised crime requires significantly greater responses.

Early evidence of this is the Dedicated Cheque and Plastic Crime Unit (DCPCU) which is part of the Met specialist Crime Directorate, and is funded by the Banks. And indeed we know the Scottish Business Crime Centre is itself doing a lot of work to drive greater business engagement and investment.

Ethical business behaviour is a key defence from crime – emphasising the important nature of values underpinned by risk management and control frameworks and raising awareness and impact of crime

We need as businesses to treat the threat of organised crime seriously and put in place management controls and measures to monitor and measure its impact. Examining the recommendations as highlighted in the Woolf Committee Report and determining their relevance for their business.

Talking to business colleagues working in this area they often refer to the “trinity of fraud”. Of Opportunity, of Pressure and of Rationalisation.

We all recognise that the opportunities for multi channel organised crime are huge and growing, as supply and demand chains become more complex and increasingly technology focused.

And this is true across all sectors of the economy.

Economic, social and political pressures on individuals, families, communities and companies are increasing, particularly in tightening employment markets, with a credit squeeze and with higher levels of personal aspirations and consumer consumption.

These factors will no doubt lead to a change in behaviour for many people, allowing the rationalisation of criminal activity or propensity to commit a crime that previously would not have been considered.

This is the challenge and risk that business recognises it faces.

We need to have ethical standard reflected in our recruitment policies and programmes. We need to operate and conduct our business with integrity and to look for and reinforce acceptable behaviours in our organisations and we need to ensure that our recruitment reflects those values and beliefs. We all have a responsibility to know who our people are.

How we address the growing challenge of organised crime will be critical to the success of the Scottish economy

We recognise that as businesses we need to have the corporate governance frameworks in place within our own organisations that can best manage the business risk. We also need to have an agreed, clearly defined, understood and jointly owned strategy to tackle organised crime in Scotland.

We need to be able to identify measure and manage the risk to business and individuals. Most importantly we need to work together to raise awareness of the impact and risks posed to business from organised crime and also to ensure that we have put in place a system or process to monitor the effectiveness of the measures we are putting in place to combat this very real threat and we need to be doing it now.

As the risk to business increases so to the opportunities for criminal activity rise.

In Scotland, we already have strong existing partnerships between the public and the private sectors and through the Scottish Business Crime Centre, we need to ensure we work together to manage and mitigate the risk from organised crime to the Scottish economy.

Thank you.