

A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA- School of Business and Economics.

Risk Assessment of Benefit Provision by Mercedes-Benz Thailand

Francisco Leonardo Ramos 3154

The DRI was carried out on the Master in Finance Program, in partnership with Mercedes-Benz Thailand under the supervision of:

Paula Antão and Methat Anansiriwong

ABSTRACT

Mercedes-Benz is an automotive company that operates worldwide, and that has among its clients government authorities. Many of the countries where it operates have the tradition of giving gifts to solidify business relationships which can open room for bribery. This study aims at assessing the processes that Mercedes-Benz Thailand has in place regarding benefit provision to Thai government authorities, to make sure there are enough controls to prevent corruption. It is concluded that Mercedes-Benz Thailand has in place good controls, but a few points such as additional training on compliance and the creation of guidelines still need to be improved.

Keywords: Benefit Provision, Government Authorities, Mercedes-Benz Thailand, Compliance.

1. INTRODUCTION

Daimler group is a worldwide leading vehicle manufacturer that sells premium automobiles, trucks, vans and buses. It also offers financial, and mobility services. Within the group, the most famous companies are Smart and Mercedes-Benz. In 2016, Daimler sold approximately 3 million vehicles generating more than 150 million dollars in revenue worldwide.

One point that distinguishes Daimler from the competition is its concern about integrity. Since it believes that only those who act responsibly can achieve sustained business success over the long term, Daimler goes further than simply complying with the law and has integrity and compliance as a vital part of its daily business activities. To do this, Daimler has in place a comprehensive compliance structure, called Compliance and Management System. It comprises several elements¹ that are regularly reviewed to account for changes regarding risks and legal requirements that occur not only within the company, but also externally. However, many times regulations do not provide sufficient guidance on how to deal with some situations, hence one must rely on the judgement of what is right or wrong, and for that, integrity must be a standard practice in the workplace and not only compliance. The group has created an

¹Whistle-blower system, compliance consultation, sales business partner due diligence, supplier integrity check, anti-money laundering, compliance internal controls, etc.

Integrity Code that explains the principles that must be present whenever conducting business, and it outlines the duties of the managers which are expected to be the role models in terms of behaviour, and to give guidance to the employees (Daimler Annual Report 2016). In fact, one of the most important corruption prevention factors is the company culture that promotes integrity (Bussmann et al. 2016). Since Daimler is a group that operates all over the world, it must comply with the local legislation of the countries where it does business, and with other laws/initiatives of a supranational/extraterritorial character². Amongst these laws, there is one named Foreign Corrupt Practices Act (FCPA) that is particularly important.

FCPA was enacted in 1977 and it was the first statute in history to prohibit firms in one country from bribing government officials³ in another. Its approach to fight corruption relies on the statute's anti-bribery provisions that prohibit the payment of bribes to foreign officials for the purpose of obtaining/retaining business. The bribes prohibited by FCPA do not refer only to monetary payments, but also to anything of value. Violations of the FCPA can lead to civil and criminal penalties. To violate FCPA, an offer, an authorization of a payment, or a payment to a government official must be made 'corruptly'⁴. However, FCPA allows the provision of benefits⁵ to a government official, if they are *bona fide* and are directly related to the promotion of a company's products or services, or are related to a company's execution of a contract. To ensure the anti-bribery provisions are satisfied, the company must have a strong internal control environment, which should include several components like 'risk assessment; control activities that cover policies and procedures designed to ensure that management directives are carried

²In Daimler's case, the applicable laws/initiatives are OECD Convention on Bribery Foreign Public Officials; UN Convention against Corruption; UN Global compact; U.K. Bribery Act; Foreign Corrupt Practices Act (FCPA).

³Government officials are any officer or employee/department of the government, agency, or anyone acting on the Government's behalf, but also political parties, party officials, candidates for the office or a 3rd party (i.e. an agent, etc.) that will give the bribes to any of the abovementioned recipients. State controlled entities are also included in the FCPA definition of government official. If someone gives benefit to a government official family member with a corrupt intent, it is also enforceable by FCPA.

⁴Corruptly means that the offer/payment/promise is intended to induce the recipient to misuse his official position to direct business wrongfully.

⁵Within this study the term benefit will be used several times, and it is used to represent anything of value for the recipient, which can be money, a gift, a discount, a favour, an invitation, a service, etc.

out (e.g. approvals, authorizations, reconciliations, and segregation of duties); information and communication; and monitoring.’ (Breuer and Khuzami 2012).

Many times, when companies want to explore new opportunities and enhance their sales’ volume, they tend to expand to new markets. But the problem is that in order to enjoy the business opportunities abroad, a company must adapt itself to the country specific beliefs, behaviours and business practices. On top of that, the success of a market entry is very dependent on the support received by the host government (e.g. timely respond to the firm’s requests, reduce the amount of bureaucracies, promote a cooperative relationship, etc.) (Leskow 2013). This combined with the fact that Daimler often has among its customers government and state-owned entities encouraged the company to, between 1998 and 2008, make payments worth millions of dollars to government officials in 22 countries to secure the sale of its vehicles. However, at that time, Daimler was under FCPA jurisdiction and, consequently, subject to its anti-bribery rules. The major internal problems that were in the genesis of the bribery were an inadequate compliance structure⁶, and a corporate culture that tolerated or even encouraged bribery (U.S. Department of Justice 2010). In 2010 Daimler pleaded guilty on its corruption charges and agreed to pay a fine of 185M\$. It was after this moment that Daimler’s commitment to Integrity and Compliance significantly increased.

One of the countries where bribery took place was Thailand. This country is attractive for foreign investors, since it offers a modern legal framework, affordable input costs, a good geographic location (Ramirez 2016) and it has experienced a high economic development: from 2000 until 2017, the average GDP growth was 4% (The World Bank, 2017). However, there is one big problem: corruption. In the most recent results of the Corruption Perception Index (CPI), provided by Transparency International, Thailand scored 35 points, while in the previous two years it scored 38, which means that Thailand level of corruption increased. Some of the

⁶ Inadequate guidelines and internal controls, inconsistent integrity codes and policies and a decentralized compliance program with no head of compliance.

main reasons are the vulnerability of the democratic system to military coups, the deterioration of rights, free debate about the constitution is impossible, and campaigning for the opposition was banned (Hanlon 2016). In Thailand, corruption is mostly seen in the relationship between businesses and government, where illicit payments are frequent. Bribes are regarded as fees or commissions, hence being a common practice when doing business in Thailand (Meagher 2014). Additionally, Thailand is one example where business customary practice is the provision of gifts. What in other countries is viewed as a bribe, in Thailand may be regarded as a mere gift, hence there is a narrow line separating what is legal and morally acceptable and what is not (Katz 2008). The Thai law allows the provision of gifts to government officials as long as they follow a traditional, customary, or cultural occasion and do not exceed the 3.000baht threshold (Frangos and Ramirez 2016). Despite all the efforts from the Thai government to fight corruption, between 2000 and 2011 only 15 cases were brought to the court by the Thai authorities (Ramirez 2016). In turn, corruption charges originated from FCPA violations are much more often brought to the court, and the penalties tend to be more severe. However, it was not always like this. In its early years, FCPA was seldom enforced and the fines did not exceed one million dollars. This means the legal risks associated with gift giving in foreign markets have been intensifying (Boedecker 2010), which has encouraged firms to either implement or improve their compliance programmes (Yockey 2011).

To ensure that the Thai tradition of providing benefits to government authorities does not fall into what is considered illegal and thus would damage the group's brand, it is of paramount importance that all interactions between Mercedes-Benz Thailand (MBThai) and the government authorities are well documented, and that controls are implemented and working effectively to prevent bribing like it happened in the past. As it is stated by Breuer and Khuzami (2012), 'As part of an effective compliance program, a company should have clear and easily accessible guidelines and processes in place for gift-giving by the company (...) clear

guidelines and processes can be effective and efficient means for controlling gift-giving, deterring improper gifts, and protecting corporate assets'. As a result, the aim of this study is to assess what is currently implemented in terms of processes and guidelines in MBThai (with respect to benefit provision), and to propose some changes to improve it.

The organization of this study is as follows: the methodology comes first where it is explained how the work was assembled. It is then followed by the *Status Quo* that describes all the information relevant to the understanding of the current practices within provision of benefit. The subsequent section is the Risk Identification that helps pointing out some issues within the processes, and in the Analysis section those problems are explained in more detail and remediation is suggested. The work will end with the conclusion that highlights the importance of this work, and points out some of its limitations.

2. METHODOLOGY

This work was developed in three steps. The first step was to set the *Status Quo* of what is the provision of benefit in MBThai, which meant compiling the approval channels, and setting the provision channels that were later categorized according to their business model. The study began with an analysis of a report with some past provisions that were made, and afterwards, together with the local compliance manager (LCM), a draft was created with a few provision channels and some approval processes. However, this was not enough to set the *Status Quo*. Additionally, it was needed a discussion with the dominant providers (i.e. departments providing the benefit: after-sales, commercial vehicles, corporate and external affairs, sales, etc.) to understand within their business models, which are the activities that can be/are in contact with government authorities. After grasping the interaction of the departments with the Government, questions were asked regarding the approval processes, the documentation, and the existence of guidelines. The answers to these questions combined with subsequent discussions with the LCM allowed to establish the *Status Quo*. The second step was the

construction of the Risk/Control Matrix, which was created to assess if for each provision channel the level of control is enough for the level of risk. To reach this goal, it had to be decided what to use as risk and as control factors. Additionally, a score had to be given to each channel, which was done with the help of the LCM. The information summarized in the matrix was the basis for the last step, the Analysis. On this last step the problems were described in more detail and some remediation was suggested, which was later revised by the LCM.

3. *STATUS QUO*

As it was mentioned before, integrity is one of Daimler's core values and that is why internally, whenever someone wants to provide a benefit, he/she needs to have in mind the following points: 1) Appropriateness - Is the business purpose served; is giving the benefit creating an impression of influence on government authorities decision; 2) Proportionality - Is the benefit commensurate with the expected return; is the benefit similar to benefits given in analogous circumstances; 3) Transparency - Is the key information disclosed to stakeholders; is the giving properly documented; 4) Consistency - Is the giving carried out as stipulated; are comparable persons being treated equally; 5) Plausibility - would a 3rd party consider the giving plausible.

To ensure these vague rules are respected, there are several approval channels in place which are the processes that assess the riskiness and the context of certain transactions that include a provision of benefit (e.g. a sales transaction where a discount is given) or that assess solely the benefit provision (e.g. a sponsorship), so that bribery/corruption or even the perception of such is avoided. Analysing what has happened in the past in MBThai, 3 major approval channels were identified when a benefit is provided to the government authorities⁷.

- Memo/Form/Contract: Essentially these documents are used to describe the details of a transaction that may or may not include a certain benefit. Thus, by looking to the overall transaction, any underlying benefit that is being given is also assessed (i.e. if the transaction is

⁷ A summary figure of the *Status Quo* can be found in Annex I.

acceptable, but the benefit is not, then the transaction will not occur). Usually, this approval channel is used when dealing with sales or after-sales transactions, which are the core activities of MBThai.

- MCP (Mandatory Consultation Process): This process is only used in sales transactions (on top of any sales contract) and it is required whenever a Mercedes-Benz subsidiary is classified as MCP relevant by the headquarters, also when the client belongs to a high risk country, and when the type of transaction is under the 21 red flags (for more details about MCP criteria see Annex II and III). It works as a relative safeguard, in the sense that it takes a further look to the transaction, giving an extra guarantee that it does not yield any unbearable risks. Similarly to the first channel, this process looks to the transaction as a whole. By approving or rejecting a certain transaction, this process is also accepting or declining any benefit provided in that transaction.
- E-claim: This is a local electronic platform, where the department who wants to provide the benefit must answer several questions regarding the provision (e.g. the reason, the content, the context, etc.). After that, several rounds of approvals are required. Unlike the previous channels, this one focuses solely on analysing the benefit provided and it is used when the provision is not directly related to MBThai core activities.

Regarding the provision channels, it was possible to identify 11 main channels. The provision channels are the different ways Mercedes-Benz can use to give a benefit to the government authorities. These channels can be grouped within the following categories: **Passenger Car Sales, Passenger Car After-sales, Commercial Vehicle Sales, Commercial Vehicle After-sales, and Others**. After understanding how the relevant departments provide benefit to the government authorities, one reaches the conclusion that the benefit can either be given in the context of a transaction, like in sales or after-sales, or it can be something additional, not related to any particular transaction (i.e. others' category). Additionally, since MBThai business has

both passenger cars, and commercial vehicles, there must be a separation between the two. Before explaining the different ways MBThai can use to give benefit to the government authorities, it is important to clarify the business model under each category.

3.1 Passenger Car Sales (PC Sales)

In terms of the PC Sales, MBThai can interact with the government officials via two ways. It can be indirectly, which means that MBThai sells the vehicles to the dealers and then they sell them to the final customer or it can be directly, when MBThai sells the vehicles to the government officials without the intervention of the dealers. Government officials are regarded as risky clients. However, within them there are some who are considered more critical/influent than others (e.g. royal family, diplomats, army, and highly ranked ministries), and for these MBThai prefers to do the sales transaction directly. With this business model in mind, it is possible to derive two provision channels of benefit to government authorities.

- MBThai Direct Sales: when MBThai deals directly with the government officials, the benefit can be in the form of discounts on the vehicles sold or the installation of certain accessories for free. For this channel a sales contract is always needed, which will also specify what is given as a benefit, and the CEO approval is always required. Other approval process that can be used is the MCP. This will only be used if the transaction presents a high risk level (as mentioned in the MCP description). CEO's approval may be required if the value of the transaction is above a certain threshold.
- MBThai Indirect Sales: in this case, the dealer is the one interacting with the Government. If any discount, or certain extra accessories are going to be provided, there are three options. The dealer may decide to give the benefit out of its margin, and under this situation MBThai is not called for approval. Instead, if the dealer does not want to forgo his margin but still wants to give a benefit, he may ask MBThai, which will decide whether it offers a discount to the dealer so that in the end he can pass it to the customer. In this case, a form will be needed, but CEO's

approval may only be required if the monetary value of the transaction is high enough. Regarding MCP, a similar logic to the MBThai direct sales channel is applied. Lastly there may be a combination of both, meaning that the dealer may ask MBThai to give a discount, and on top of that give a discount out of its margin.

3.2 Passenger Car After-Sales (PC After-Sales)

After-Sales refers to the sale of passenger car parts and/or its maintenance. Usually when a government authority needs some maintenance, the dealers will be the ones providing it. However, there is one scenario under which MBThai deals directly with the end customer that is when the Royal Household Department (who takes care of the Royal Family fleet) requests a maintenance service. Therefore, the following provision channels were identified:

- MBThai Direct Services: When dealing with the Royal Family, MBThai may need to offer extended guarantee or discount either on the parts and/or on the maintenance service provided. If that is the case, then an official memo is required to get the approval. Although it is a particularly sensitive transaction, the CEO is not involved in the approval process. Instead, only MBThai's after-sales vice-president is aware of such transaction.
- MBThai Indirect Services: The dealer may provide extended guarantee or a discount on the parts/maintenance. Similarly to the MBThai Indirect Sales, the benefit may come from the dealer or from MBThai's margin, and only in the latter case a form is needed. In this transaction, there is no CEO approval, only the MBThai after-sales vice-president is aware of such benefits.

3.3 Commercial Vehicles Sales (CV Sales)

For the CV Sales, the business model is different from the one of the passenger cars. In this case, MBThai doesn't sell directly to the final customer. Another difference is that MBThai does not sell fully assembled vehicles⁸ to the dealer, instead it only sells chassis that are later converted into vehicles by the body builders. As a result, there are three ways of selling to the

⁸ There is only one model, the Sprinter, which is sold fully assembled. For this vehicle there is no body builder involved, and it is always sold via dealer.

end customer. 1) Daimler's Headquarters (DAG): it is usually involved in the sales of CV to the Thai Government if they are military vehicles. If the CV are not military, then they can be sold via the two remaining ways. 2) Dealer: MBThai sells the chassis to the dealer which pays a fee to the body builder that transforms the chassis into a vehicle (e.g. an ambulance, fire truck, etc.). This vehicle is then sold by the dealer to the customer. 3) Body builder ('one-invoice transaction'): when MBThai sells the chassis to the dealer, which sells the chassis to the body builder, who not only assembles the vehicle, but is also the one selling it to the end customer. Under this business model, the following provision channel was identified:

- **MBThai Indirect Sales**: On this channel there are several scenarios of benefit provision. If the vehicle is sold by the dealer, a discount may be given out of its margin, MBThai's margin or both. If there is a 'one-invoice transaction' the body builder may also give a discount out of its margin or it may ask the dealer for a discount (and the dealer may ask for a discount from MBThai). A form will only be needed when MBThai gives a benefit out of its margin, but in this case, it is not under CEO's review, instead it is reviewed by the regional responsible for the commercial vehicles department (based in Singapore). MCP may be present if the criteria is met, but similarly to the form, the regional responsible is the one reviewing it.

3.4 Commercial Vehicles After-Sales (CV After-Sales)

Similarly to the CV Sales business model, MBThai does not deal directly with the end customer, instead the transactions are always done via the dealer. For the military vehicles, the government has a specific department who does the maintenance, hence they only need to buy parts from the dealers. On the other hand, regarding the non-military vehicles, both the parts and the maintenance services are required. Consequently, there are two provision channels.

- **MBThai Indirect Services**: if a non-military commercial vehicle requires maintenance, the dealer will be the one doing it. Under this channel, the dealer may provide a discount on the parts sold and/or on the maintenance service. He may also provide an extended guarantee. If

the benefit comes from MBThai's margin, then a form is needed, which will only require the regional responsible for the CV department review if the value of the transaction is above a certain value. If the benefit is given solely from the dealer's margin, then no form is required.

- MBThai Indirect Parts: Very similar to the channel above, with the difference that the type of product is different, since this relates to military vehicles. Hence, the benefit provided is simply the discount or extended guarantee on the parts, and not on the maintenance service. All the approval processes are the same as the ones from the abovementioned channel.

3.5 Others

To keep its good relationship with the government, MBThai gives benefits via several channels besides the ones given on sales or after-sales transactions. The channels are the following:

Sponsorship: It can be to support an event or activity, through the provision of products, services or financially. Sponsorships are usually done for promotional purposes to generate publicity, image projection or to obtain access to a wider audience. For every sponsorship there must be a sponsorship agreement where all the details are stated (e.g. who is the recipient, how much is the sponsorship, what MBThai gets in return, etc.). Under this agreement, the CEO's approval is required, but E-claim is not needed.

Donation: Is a contribution without immediate return that is an important tool to highlight Daimler's good corporate citizenship and its commitment to corporate social responsibility. Donation is the act of giving a gift or a grant for charitable purposes without any direct benefits in return. E-claim approval is required which means the CEO will be among the approvers.

Seasonal gift/invitation: Sometimes the company wants to invite some government officials to its plant, thus MBThai may provide lunch, transportation, tour or even some Mercedes-Benz branded gifts and all of this must be approved in E-claim.

Government services: Some examples of government services are registrations, licenses, homologations, etc. Even though this is not really a provision channel, since many times

MBThai uses 3rd parties as intermediaries on the contact with the Government, it is considered a risky area, because there may be room for bribery, thus it is also important to keep under strict control. Depending on the type of transaction, different forms or memos may be needed. CEO's review may be present depending on the value of the transaction.

4. RISK IDENTIFICATION

In this section the amount of risk and control are described, and these descriptions are the basis for the discussion in the Analysis section.

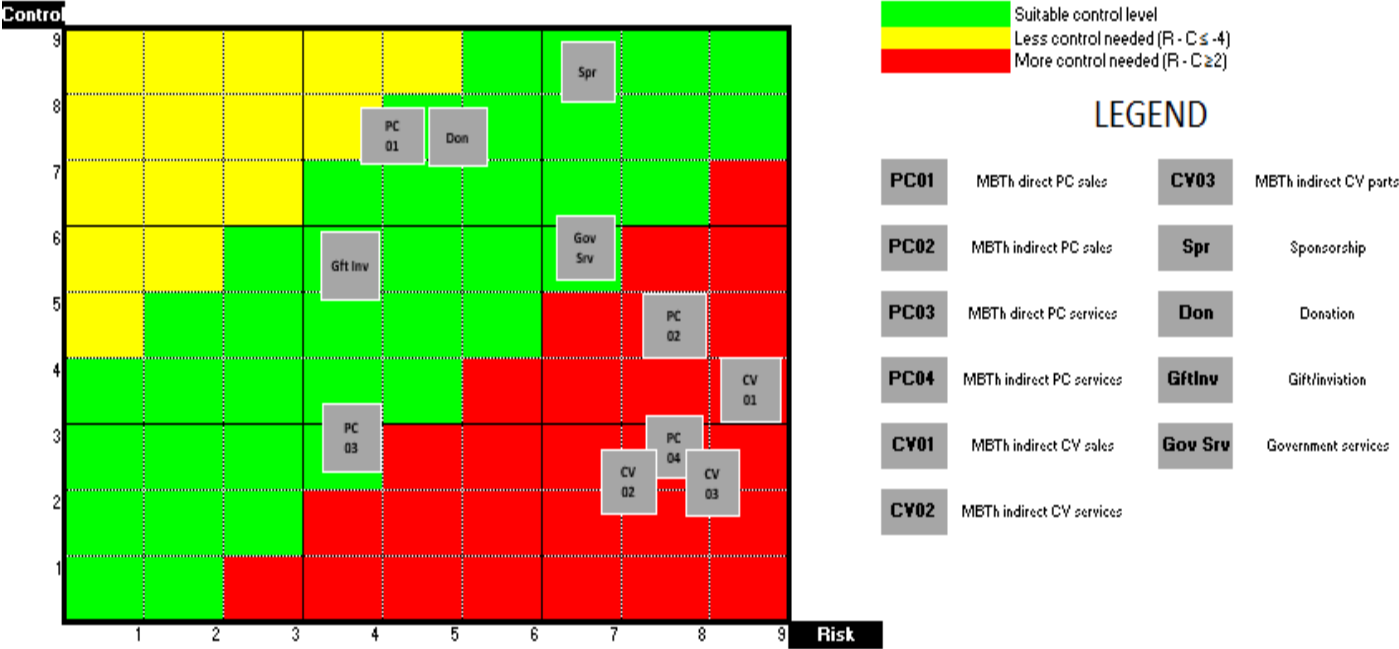


Figure I: Risk/Control Matrix (source: author's own figure).

This figure presents a matrix that allows visualizing the riskiness underlined on each provision channel. To be constructed, it was necessary to define which indicators should be used as measures of control and of risk. Both for the risk and control factors, three indicators were used. After selecting these indicators, each provision channel was awarded a certain score that reflects how risky and how well controlled they are. Each indicator has a score that can assume the following values: 0-not applicable; 1-low applicability; 2-medium applicability; 3-high applicability. Then, summing the values of all three indicators, a score is obtained both for risk and for control. The yellow area represents excessive control level, the green part covers the optimal control level, and the red zone indicates lack of control for the level of risk.

The risk indicators chosen and the rationale for their selection is described below:

- Transaction with a government official: Regarding this point, all the provision channels had a score of 3. Since this study only focuses on government recipients, there is no variability with this regard. Dealing with the government officials is considered risky, because if the company is not careful on that interaction, it may transmit the wrong image to the public, which can result on being accused of corruption leading to severe consequences.
- 3rd Party involvement: This indicator refers to the presence of other parties in transactions where benefit may be provided. The more parties involved, the more difficult to ensure business conduct. Additionally, concern about integrity is not the same for other parties as it is for MBThai. And more parties involved imply more complex processes and more room for corruption, also because the price tends to be higher (fees of the ones involved).
- Benefit Adjustability: depending on the channel the amount given as a benefit may be adjustable or not. The more flexible (i.e. less strict or less clear) the guidelines and procedures that relate to the provision channel, the more adjustable the benefit. Higher adjustability implies a wider range of options when choosing a benefit, which creates room for malpractices, and makes it harder to justify the amount given within each provision.

The control indicators chosen and the rationale for their selection is described below:

- Process documentation: this indicator measures if the policies, work instructions, guidelines or any other related documents are in place, are comprehensive enough, are accessible and clear.
- Approval sufficiency: The more controls and approvers involved in a certain provision activity the safer that channel. If the approvers belong to compliance/legal departments and/or hold high ranking positions, the better approval process.
- Related Safeguard: these are any additional/extraordinary measures that are in place and that are not related to provision itself, but to the whole transaction independently of having a benefit or not (e.g. due diligence, supplier integrity check, internal controls, MCP, etc.).

		Risk			Total	Control			Total
		Trans. Gov.	3 rd party	Benef. Adjust.		Proc. Doc.	Appro. Suffi.	Relat. Safeg.	
Passenger Cars	MBTh direct PC sales (PC 01)	3	0	2	5	3	3	2	8
	MBTh indirect PC sales (PC 02)	3	2	3	8	2	2	1	5
	MBTh direct PC services (PC 03)	3	0	1	4	1	2	0	3
	MBTh indirect PC services (PC 04)	3	2	3	8	1	2	0	3
Commercial Vehicles	MBTh indirect CV sales (CV 01)	3	3	3	9	1	2	1	4
	MBTh indirect CV services (CV 02)	3	2	3	8	1	2	0	3
	MBTh indirect CV parts (CV 03)	3	2	3	8	1	2	0	3
Others	Sponsorship (Spr)	3	1	3	7	3	3	3	9
	Donation (Don)	3	0	2	5	3	3	2	8
	Other types of contribution (Oth ctn)	3	0	2	5	3	3	0	6
	Seasonal gift/invitation (Gft Inv)	3	0	1	4	3	3	0	6
	Government Services (Gov Srv)	3	2	2	7	2	2	2	6

Figure II: Provision channels risk and control scores (source: author's own figure).

PC 01: The benefit is always given via MBThai, hence there is never the involvement of a 3rd party. The benefit is adjustable, because there is no explicit limit on the amount that can be given, but since there is a guideline governing this transaction there are certain rules that must be obeyed, thus in practice the benefit is not fully adjustable. In terms of the controls, the documentation is in place and effective, and the approval process goes through the CEO (sometimes also through the LCM) which makes the approval highly sufficient. Finally, the related safeguard refers to the possibility of MCP being present, and also to the good internal

controls that are implemented that even though are not directly controlling the benefit given, control the sales transaction.

PC 02: The benefit under this channel is always given by the dealer. However, a 3 point score is not attributed in the 3rd party involvement, because for other transactions there may be even more parties involved (see CV 01). Regarding the benefit, it is more adjustable than in the previous channel, since besides the discount that comes from MBThai's margin it can also come from the dealer's margin. In terms of process documentation, although there is no guideline for the dealers, some of them may have developed an internal one, and additionally, the benefit given out of the MBThai's margin has guidelines governing it. In terms of approvers, the CEO may be involved, and the LCM may be present, but less frequently than in the previous channel. Since MCP may also be present, it works as a relative safeguard.

PC 03: This channel is only used when the end customer is the Royal Family, and under these circumstances, MBThai deals directly with it, then there is no 3rd party involvement. Even though there is no specific guideline for this transaction, since the benefit is not very adjustable (follows a similar pattern every time), the amount of control is sufficient despite being low. In terms of the approvers, there is only approval by the vice-president of the after-sales department. There is no related safeguard.

PC 04: Only the dealer provides benefit under this channel. The benefit is very adjustable since it may come from MBThai's margin, the dealer's margin or both. But unlike in the Indirect PC Sales, neither the dealer nor MBThai have guidelines for this complaint compensation, which means that the process documentation is very poor, even when the benefit is given out of MBThai's margin. Similarly to the previous channel, only the vice-president of the after-sales department is called for approval. There is no related safeguard.

CV 01: In some cases, when a benefit is given via this channel, there may be the involvement of not only the dealer but also a body builder, and on those cases, the 3rd party involvement is

the highest of all the channels, scoring 3. Since there is no guideline governing the CV operations (it is used the PC sales guideline instead), the process documentation is very poor, and the benefit adjustability is very high. Regarding the approvers, the critical cases do not go through the CEO, but instead through the regional responsible for the CV department approval, and the LCM is hardly ever called for advice. The related safeguard is the MCP.

CV 02 & CV 03: Regarding the CV after-sales services/parts, it is always done via dealer with no involvement of any body builder. In terms of the benefit adjustability it is also very high, since there is no CV specific guideline. The process documentation is only the one from PC, which makes it insufficient. The approval is done by the regional responsible for CV department, thus nor the CEO nor LCM are present. There is no related safeguard.

Spr: The Sponsorship is always done through MBThai, but there may be some events, where MBThai is not the only sponsor, meaning that it sponsors something in collaboration with another entity, hence the 3rd party involvement not being zero. The amount of benefit is adjustable, since it depends a lot on the type of event, but of course extraordinary high values will not be accepted. In terms of controls there is a very good policy implemented. Within the approvers there are the CEO and the LCM. Regarding the related safeguard, it is good, since many departments are involved (i.e. controlling, accounting, procurement) and all of them even if they are not approvers have the chance to assess the sponsorship and give an opinion. Headquarters may also have a word on it depending on the value of the provision.

Don: Donations are always provided by MBThai. In terms of the adjustability of the benefit, it is similar to the sponsorship, in the sense that there is no official limit, but the value is usually not as adjustable as in the sponsorship. The process documentation is good and since E-claim is used both the CEO and the LCM are approvers. Even though there are not as many departments analysing this transaction as under the sponsorship, there is also the possibility that the headquarters assess the provision, which works as a good safeguard.

Gft Inv: The benefits given are always provided by MBThai. The benefit is not very adjustable, since it is given under very particular situations (e.g. tour to the plant, lunch, etc.) meaning that it must be a minimal value for the occasion. The process documentation in place is good, and the approval is sufficient, thanks to the E-claim usage. There is no related safeguard.

Gov Srv: For the government services, it can be the case that MBThai deals directly with the government or that it hires an agency, or even a joint collaboration, so the 3rd party involvement is relatively high. Since this channel is not fully about providing benefit, but paying for a service, the level of benefit adjustability should not be very high, but it will depend on the service provided by the government and the fee the agency charges. The process documentation does not have a higher value, since there is room for direct buys to occur and the contracts may lack some contractual clauses. In terms of the approval, the CEO may only be required to approve if the value is large enough and the LCM is rarely involved in this transaction. For the related safeguard, there is the possibility of a due diligence made by the IPS department and a supplier integrity check done by the compliance department. However, there is a loophole within these processes, and that is why the related safeguard does not score higher.

5. ANALYSIS:

The previous section briefly describes the amount of risk and the level of control in each provision channel. This section goes in more detail through the identified issues on some of the provision channels, and the respective remediation at the end.

5.1 Provision channels in the green area of the matrix

For a channel to lie on the green part of the matrix, it needs to have in place enough controls for the level of risk, but this does not mean the channels are flawless. Some of these channels use E-claim system as the approval process that despite being a very good approval channel has one problem: it is not comprehensive enough on the description of what should be answered on the different fields. This lack of detailed descriptions makes it harder for the persons who have

to respond to what is asked and then for the approvers to analyse and accept/reject the provision. Thus, what frequently happens is that at the first time the approvers reject the benefit and ask for more details about the provision and only afterwards the transaction is approved. On top of that, there is one channel that lies on the green part, but has several problems:

- Government services: To be allowed to do business, MBThai must have the appropriate licenses, registrations, etc. The Government is the one issuing these ‘documents’ meaning that it sells a service to MBThai (named government services). The main problem is that sometimes MBThai hires an external agency to deal with these matters, which means that the company is being represented by an external party to the Government, and this generates several issues.

Before going through them it is important to describe the process (figure III)⁹.

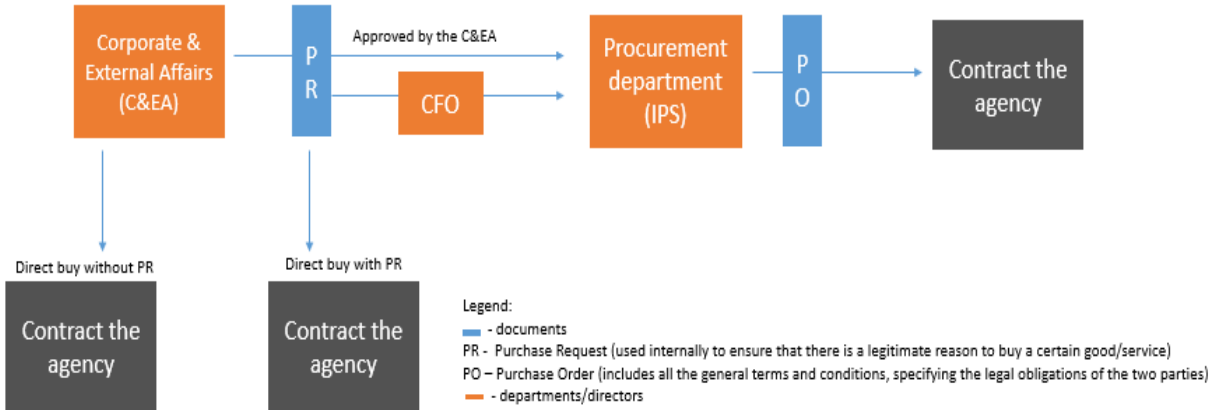


Figure III: Steps before deciding to hire an agency (source: author’s own figure).

When C&EA needs to choose an agency to represent it, due diligence and integrity background checks may be undertaken if the transaction is risky (figure IV)¹⁰.

⁹ Usually the process of choosing an agency is the following: C&EA issues a Purchase Request (PR), which is used internally to ensure that there is a legitimate reason to buy a certain good/service. Depending on the value of the transaction, the PR may be approved within the department, or may have to be escalated to the CFO. If the purchase request is accepted, then the procurement department (IPS) will select the best agency to represent MBThai on this regard, and a Purchase Order (PO) will be issued, that includes all the general terms and conditions, specifying the legal obligations of the two parties. However, when recruiting an agency there is also the possibility of two other process scenarios: Direct buy with PR and Direct buy without PR. Essentially as the name suggests, direct buy means that the department is the one selecting the agency (without the help of IPS department), and there may or may not be a purchase request specifying the reasons of the purchase.

¹⁰ Two alternative procedures can be used. One is conducted by the IPS department and the other is conducted by the compliance department. Whenever a department (not in the scope of IPS) wishes to purchase some good/service from a supplier, the compliance department will help assess the integrity of the supplier, through a process called Supplier Integrity Check (SIC). If the department is under the scope of IPS, then this department will do a Due Diligence (DD) check, and no further support from the compliance department will be present. This means that if IPS doesn’t classify a transaction as risky, then it won’t do DD, and if the transaction falls under IPS scope, then compliance department doesn’t intervene, even if considers the transaction risky, which means that under this situation no DD nor SIC will be made even though compliance may consider the transaction unsafe. These two procedures are very similar, the major difference is that the requirements needed for the activation of the DD are different than the ones for the SIC. Both DD and SIC can be activated if a valid integrity concern arises, but while SIC focuses on risky business model, DD focuses on risky ‘commodity’. The latter focuses on the good/service that is provided, while the SIC focuses more on the transaction as a whole.

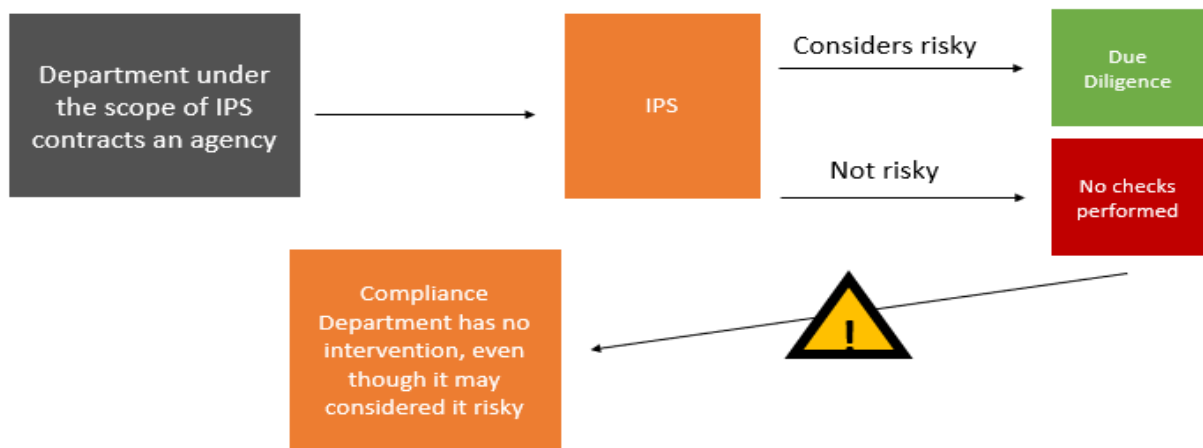


Figure IV: Integrity checks on the agency selected (source: author's own figure).

Regarding the payment to the agency it has two components. One that goes to the agency for providing the service, and the other part is the fee that goes to the Government for the administrative tasks, like issuing the licenses. Compiling all the abovementioned information, several problems that can be pointed:

- Regarding the payment to the agency, many times there is no detailed invoice and thus MBThai may not be fully aware of how the payment is split between the Government and the agency. As a result, MBThai may be paying more than what it should (misuse of company's money) leading the agency to get extra money that can be used to bribe the government officials.
- Whenever MBThai hires an agency to deal with government services there are a few complications. First is the possibility of having a purchase without IPS support (i.e. direct buy). IPS involvement is important, because it works impartially, meaning that it does not allow the requesting department to choose a supplier based on friendship but instead on service quality/price ratio. Secondly, even if IPS helps on the supplier selection, the applicable contracts may lack sufficiency and safeguard on certain points (e.g. the contracts do not cover agency sub-contracting).
- As it was explained before, there may be some transactions that are not perceived as risky by the IPS department, but that the compliance department considers risky. For example, vehicle registration via direct buy is not high risk according to IPS (because vehicle registration is not

a high risk 'commodity'), but for compliance it is (since it is a direct buy). However, since this kind of transaction is under the scope of IPS, no DD nor SIC will be done, which may leave some integrity/compliance issues undisclosed.

5.2 Remediation for the provision channels in the green area of the matrix

- An update of the E-claim platform should be done. Under this update, more descriptive questions should be asked (e.g. instead of just asking 'who is the recipient' it could be 'the full name of the recipient', what is his official position, how many people are involved, etc.).
- Always ask for detailed invoices to ensure that the figures paid to the government and to the agency are the actual ones, and not higher.
- IPS and Legal departments should cooperate to mitigate some of the flaws within the contracts. In addition, there should be no direct buys exceptions, meaning that IPS should always help the relevant department in the choice of a supplier.
- If a transaction within the IPS scope is not considered risky, but it is so by the compliance department, a SIC should be conducted to ensure that there are no integrity issues within that particular transaction.

5.3 Provision channels in the red area of the matrix

On this section the channels do not have enough control for the level of risk, which leaves room for transgressions. However, being in the red zone, does not necessarily mean that the channels pose an imminent threat, because although there is little control, Daimler employees must have the integrity value present in all of their decisions. These are the main channels' problems:

- MBThai Indirect PC Sales: As it was explained earlier, under this channel, the benefit may be given out of MBThai's margin (which does not pose any problem, because there are guidelines implemented), the dealer's margin or both. When the benefit is given out of the dealer's margin there are two issues to be concerned with: 1) There are no guidelines specifying the criteria to give a benefit (what to give, under which circumstances, to whom, etc.); 2) The dealers are

more concerned about reaching their sales targets to get the monetary incentives given by MBThai¹¹, instead of paying attention to compliance or integrity issues that may arise from their actions. Overall, this creates room for more doubtful transactions that may compromise Mercedes- Benz brand, and that is why this channel lies on the red area.

- MBThai indirect PC services: If the services to be provided by the dealer whenever he receives a customer complaint are based on the warranty, then there is no problem. However, sometimes the warranty already expired, and the dealer may give some additional benefits (extra maintenance, discount on spare parts, additional warranty, etc.). Or even, if the warranty is still active, some benefits that are not covered in the ‘warranty package’ can be provided, for example, if a customer lives far from the repair shop, and the car needs several rounds of repairs, there may be a provision of accommodation to the government official during the repairs. The biggest problem is that there is no ‘compensation guideline’, not even within MBThai. This means that there are no stipulated rules of what can/should be given under the different complaint scenarios leaving room for bribery/corruption. On top of that, even when the benefit comes from MBThai’s margin the LCM is hardly ever notified of such provisions, and the CEO doesn’t review any of the customer’s complaints, only the vice-president of the after-sales is involved.

Let us move to the CV business. In MBThai, this department is not separated into CV sales and CV after-sales like what happens in the PC business. Instead, there is only one department (i.e. the CV department) that deals with both matters. In addition, who deals with the most important issues of this department is not the CEO, but the regional CV responsible.

- MBThai Indirect CV Sales: Whenever a discount is given via dealer from MBThai’s margin, the only persons who are aware are the CV general manager and the regional responsible for the CV department, meaning that there is no approval/review made by the CEO. The problem

¹¹ MBThai gives quarterly monetary incentives to the dealers that reach a predetermined volume of sales. Additionally, if every quarter the dealer meets the sales targets he will get an additional compensation at the end of the year.

is that the ultimate responsible for the company is the CEO, which means that if something damaging to the company happens, the CEO will most likely be prosecuted, even though he is not aware of such events. Another problem with this channel is that the sales process may be a 'one-invoice transaction' that uses the body builder as the one selling to the government authority, and this type of transaction is risky. Body builders don't have the same concern about integrity as MBThai, and in these transactions where more parties are involved it tends to be harder to ensure business conduct. Lastly, and more important, there is the problem of lack of specific process documentation to this department. It is not just documentation regarding the provision of benefit, but also the documentation regarding the daily activities that does not exist. Instead, the CV department uses the guidelines from PC sales and after-sales departments. The problem with this approach is clear: the applicability of such guidelines is limited due to the inherent discrepancies (i.e. they refer to different products, customers, logistics, business model, etc.). Without proper documentation it is difficult to ensure the control over the CV transactions. For the CV after-sales channels, the issues identified are the same as in the sales channel, with the exception that the 'one-invoice transaction' is not applicable.

5.4 Remediation for the provision channels in the red area of the matrix

- For the PC sales department, a guideline regarding the amount of the discounts should be created for dealers' transactions with government authorities. For the PC after-sales department a guideline is also required, but, in this case, it is a "compensation guideline", that stipulates which kind of benefits can be given and under which circumstances. This "compensation guideline" must be applied by both MBThai and the dealers. For the commercial vehicles' department, documentation and guidelines should be created, not only regarding the provision of benefit, but also the department's daily activities.
- LCM should provide additional expert training to the dealers on compliance related risks to ensure that the people who are responsible for approving the transactions are properly trained

to take the right decisions. Also, the vice-president of after-sales should have additional training, if his approval is going to replace the CEO and the LCM approval.

- All benefits given solely under the dealer's margin should also be reviewed or approved by MBThai to ensure the benefit provided is proportional to the context under which it is given. If this is not possible, MBThai should stipulate stricter rules to limit dealer's provisions (e.g. limit the maximum value of discount that the dealers can give from their margin).
- CEO and LCM should review all benefits given to the government authorities, and not just the high value ones. Having the CEO and LCM as reviewers/approvers is a way of getting more people involved in the assessment of a certain provision, which may in the end lead to the discovery of issues that were not identified if less approvers were required, and it is also a way of impartially assessing the whole provision. Furthermore, the CEO is the external affairs representative, so he is (alongside with the Corporate and External Affairs department) the contact person with the Government, which means that he should be informed of everything that is happening between MBThai and the Government.
- MBThai should abolish the "one-invoice transaction", to avoid unnecessary risks of corrupt practices. Hence the body builders should not be allowed to sell to the government officials.

6. CONCLUSION & LIMITATIONS

Daimler is a company that views integrity and compliance as key ingredients for success and Thailand is a country where corruption and political instability is present and gift giving is a common practice when doing business. Therefore, it is very important that MBThai whenever dealing with the government authorities has in place very strong controls to ensure there is no room for corruption, and that is why this study is valuable for the company on different levels. First, it is a way to gather and categorize all the information regarding benefit provision, that was previously spread throughout the different departments without any "central record". This is useful because if the local CEO, other Daimler subsidiaries or even Daimler headquarters ask

for this information, it is now possible to give an accurate and more detailed answer of what is done by MBThai. Second, whenever new employees join the company (e.g. if a new LCM is hired), by having all this information gathered it is easier for him to understand how the provision is done. Third, by critically assessing the *Status Quo* it is possible to identify some issues within the procedures and propose remediation, which may lead to the improvement of the processes. Lastly, by creating the risk/control matrix it is possible to summarize all relevant information and to explain employees the riskiness of each channel through a visual instrument. Despite its practicality, this study has some limitations. First, the information needs to be constantly updated, since the business is always changing, otherwise this work will become obsolete. Other problem is that integrity and compliance matters are extremely subjective to the person who is conducting the analysis, meaning that if this analysis was made by another individual, the issues identified, and the proposed remediation could have been different. Lastly, when talking about the riskiness of the transactions it only accounts for internal risks, while external factors (such as legislation, enforcement, competition, political environment, etc.) are not included within this model.

Overall, the conclusion reached is that MBThai already has a strong and comprehensive control environment, but just because nothing harmful happened so far, it doesn't mean it won't occur in the future, and that is why the issues discussed in the previous sections should be addressed. Big companies like Mercedes-Benz have the responsibility to be the first ones refusing to engage in corrupt activities, must adopt enough controls to prevent malpractices, and should be the role models in fighting corruption. By setting the example others will follow and gradually corruption will diminish.

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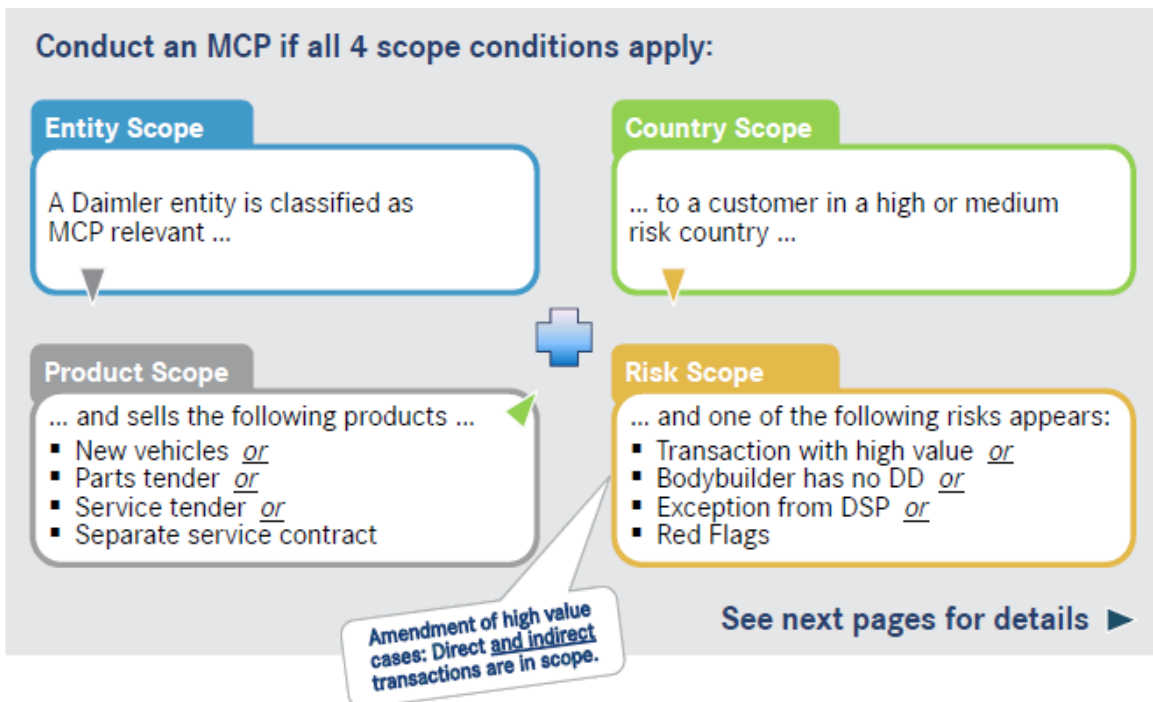
Annex I

Status Quo summary (source: author's own figure).

Y	the approval channel is required for the providing			
(Y)	the approval channel can be required for the providing			
n/a	the approval channel is not applicable			
	the providing is always under CEO's approval/review			
	the providing can be under CEO's approval/review			
	the providing is not under CEO's approval/review			
Status as of <i>September 2017</i>				
Approval Channel	Official Memo / Form / Contract	E-Claim System Providing Gift	MCP	Approval Channel
Providing Channel				Dominant
PC Sales				
[PCS] MBThai Direct Sales	Y	n/a	(Y)	Sales
[PCS] MBThai Indirect Sales	(Y)	n/a	(Y)	Sales / Dealer
PC After-Sales				
[PCAS] MBThai Direct Services	Y	n/a	n/a	After Sales
[PCAS] MBThai Indirect Services	(Y)	n/a	n/a	After Sales / Dealer
CY Sales				
[CVS] MBThai Indirect Sales	(Y)	n/a	(Y)	CY / Dealer
CY After-Sales				
[CVAS] MBThai Indirect Services	(Y)	n/a	n/a	CY / Dealer
[CVAS] MBTh Indirect Parts	(Y)	n/a	n/a	CY / Dealer
Others				
Sponsorship	Y	n/a	n/a	C&EA
Donation	n/a	Y	n/a	C&EA
Seasonal Gift/Invitation	n/a	Y	n/a	C&EA / CEO / Sales / After
Govt Services e.g. regist, license, etc.	(Y)	n/a	n/a	C&EA

Annex II

MCP criteria (source: Mercedes-Benz internal reports).



Annex III

21 Red flags (source: Mercedes-Benz internal reports).

Use of numbered bank account	Payment via numbered bank accounts.	Example: A business partner plans to sell vehicles and you are aware that payments with regard to this transaction are planned via numbered bank accounts in Switzerland.
Upfront payment requested to get business	Upfront payments requested in order to get the business.	Example: A business partner is referring to a major business opportunity and asks you for an upfront payment in the amount of 3.000 € in order to initiate the business discussions.
Use of accounts in other countries	Payments to accounts in countries other than where the business partner is located or where the services were provided.	Example: An MPC in Europe plans to sell vehicles to an Italian Body Builder. The Body Builder will export the vehicles to an end customer in Algeria. You are aware of payment flows with regard to this specific transaction via accounts on the Cayman Islands.
Payment from 3rd party	Payment from 3rd party on behalf of the beneficiary of the products.	Example: You plan to sell vehicles to a company and are informed that the company intends to mandate a 3rd party to process the payment of the vehicles.
Place of delivery differing	Place of delivery differing from contractual or written agreements (applicable for MCP 'Reopen' cases only).	Example: According to the contract the delivery of vehicles is foreseen to Egypt. The business partner informs you without changing or amending the written agreement, that the vehicles should be
Sponsoring close to decision	Sponsoring activity close to the decision making process of a specific transaction	Example: You plan to sell a large number of vehicles to a company. The purchasing manager wants you to sponsor the 50th anniversary of the company shortly before signing the vehicle contract.
No or incomplete written agreement	No or incomplete written agreement governing the services to be provided or the compensation to be received.	Example: The business partner does not intend to sign a contract with you governing all products and services.
Rumors of improper payments or Other	Rumors of improper payments or other (reasonable) suspicion that anti bribery/ corruption laws and/or rules are violated.	

Requested anonymity	An involved 3rd party in a transaction insists on or requests anonymity.	Example: You receive the information that a third party who is involved in a long transaction chain wants to stay anonymous.
Conflict of interest (Recommendation)	The 3rd party is recommended by a government official.	Example: An purchasing manager recommends a specific 3rd party to be involved in transaction. You have the impression that he wants to include the 3rd party in order to get bribed.
Conflict of interest (Ties)	Family or business ties of involved business partners or 3rd parties with government or political officials.	Example: One of the business partner's shareholders is connected to a government official. It seems that the business partner was selected only because of existing family ties with the government official.
3rd party listed on SIL	An involved 3rd party is listed on the Sales Integrity List (SIL).	Example: The company 'Moon & Mars Cars' is listed on the SIL as Action Type II.
No adding value of 3rd party	Involvement of a 3rd party in a transaction without clear/understandable service and adding value.	Example: You were informed that an involved local Sales representative of a bodybuilder does not provide any services or adding value.
No sufficient expertise of 3rd party	Involvement of a 3rd party in a transaction without sufficient capabilities (e.g. resources, expertise).	Example: You plan to sell five chassis to a bodybuilder who is involving an additional bodybuilder in the supply chain to install a broadcasting module. You were informed that the second bodybuilder does not have the expertise to realize the intended task.
Extraordinary high price	Extraordinary high price, a) significantly deviating from standard price lists, and b) not offered to comparable customers under comparable circumstances. Circumstances are e.g. market conditions, competition, negotiating skills.	Example: You plan to sell four trucks to the Presidential Garage via an involved external dealer. You get to know that the price the dealer offers to the Garage is 15% higher than the list price.
Extraordinary low price/discounts	Extraordinary low price, a) significantly deviating from standard price lists and/or typical defined discount rates, and b) not offered to comparable customers under comparable circumstances. Circumstances are e.g. market conditions, competition, negotiating skills.	Example: You plan to sell two cars, and the discount (30%) is much higher than the defined discount rate on your price scheme (20%). You would not offer such a low discount to comparable customers under comparable circumstances.
Exclusive benefit with significant value	Exclusive benefits with significant value offered to a very limited number of people involved in the decision making process of a transaction.	Example: You plan to sell two vans worth 50.000 EUR to a governmental company. You become aware that the involved dealer invites two employees of the company, who are involved in the decision making process of the transaction, to an exclusive holiday trip worth 10.000 EUR for free.
Extraordinary high net margin of 3rd party	Extraordinary high net margin of 3rd party known to Daimler entity. Margin a) significantly deviates from typical market practices and b) is in excess of the value of the services provided.	Example: You get to know that a local Sales Representative of a bodybuilder receives a net margin of 20% instead of the usual 2% and does not provide any appropriate services.
3rd party just formed for task	A 3rd party is or was just formed in order to engage in the specific transaction.	Example: You are aware that an involved local Sales representative of a bodybuilder was just formed for the planned transaction.
Involved Letterbox company	Involved 3rd party is suspected of being a non-operating respectively letterbox company.	You plan to sell vehicles to the Ministry of Defense via an authorized dealer. You were informed that a consultant will be involved by the dealer. You are aware that this consultant is nothing more than a letterbox company unable to fulfill the foreseen tasks.
3rd party circumvents Daimler rules	A 3rd party undertakes actions which are not illegal or forbidden, but aim at circumventing Daimler rules.	Example: A bodybuilder usually acts as your direct business partner and has a valid Due Diligence. Now that you identify integrity concerns regarding the bodybuilder, you get to know that he all of a sudden changes the business model. In transactions, he now does not act as direct business partner anymore in order to circumvent Daimler Due Diligence constraints.