

'Dealing with problems' a growth market

By PAUL MURPHY

Asahi Shimbun News Service

Corporate fraud, jilted lovers of libidinous executives and mobsters bent on extortion meld ingloriously to create business for Michael O'Keefe.

"Our stock-in-trade is dealing with problems," O'Keefe, managing director of U.S.-based multinational risk-management consultant Kroll International Inc., said in a recent interview.

Unlike in other countries, customer demand for terrorism-related security is low in Japan, but he noted that difficulties arising from this country's steady corporate decline have more than compensated.

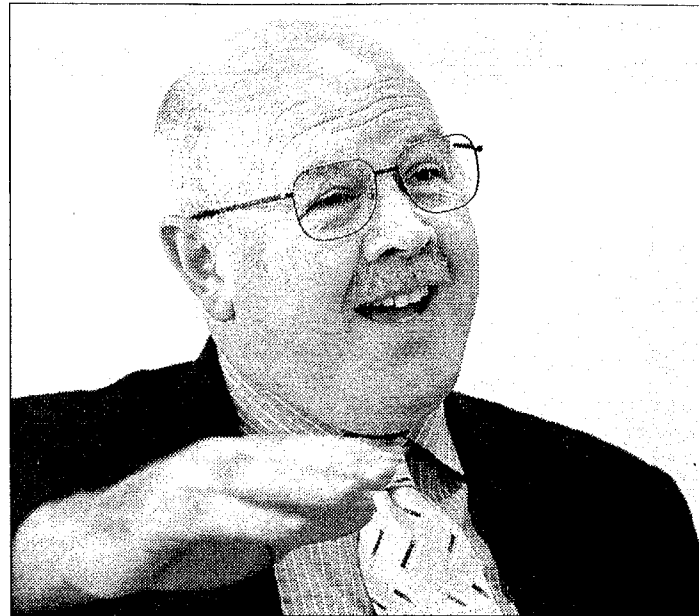
Though O'Keefe declined to release sales figures, Kroll plans to increase its core staff in Japan from the current eight to 12 by next year.

The 48-year-old Irishman, who has headed Kroll's Japan office since December 2000, said the bad loan workout is driving demand.

Typically involving intelligence gathering or investigations of firms bought in a portfolio of soured debt, bad loan-related work comprises 40 percent of revenue, or investigations of up to 150 companies in 2001.

Because banks adopt an all-or-nothing approach when selling bad-loan portfolios, buyers, usually foreigners, tend to do little pre-purchase due diligence.

In cases where those assets



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Michael O'Keefe, head of Kroll International Inc.'s Japan office

are actual companies, Kroll is often sent in after the purchase to investigate a firm's management practices or technology standards and ascertain if its business is salvageable.

Uncovering evidence of fraud or other serious problems with a view to reviving, rather than simply asset stripping, is one of Kroll's fastest growing bad-loan related businesses, accounting for about 10 to 15 companies investigated last year.

"Firms go bad either because of incompetence or fraud," said O'Keefe, who first came to Japan in 1977 to pursue a master's degree in agricultural chemistry at Okayama Univer-

sity. "If a company is going down the tubes, people will justify to themselves, saying, 'there is not going to be work here for me much longer, so if everyone else is (defrauding the firm), why not me?'"

While much intelligence on the wrongdoers is culled from colleagues who have been caught red-handed, the hard evidence of illegal conduct generally comes via the mundane science of computer forensics.

Kroll dispatches its own experts and sometimes hires outside contractors to sift through a firm's computer systems.

"If you look at computer and e-mail systems, you can find out an awful lot," O'Keefe said,

estimating that a fraudster can only cover up 20 percent of the digital evidence of his wrongdoing even if he deletes computer files on the hard disk.

"Co-conspirators will communicate. If there is good e-mail backup, we can go right back," he said.

The methods of detection are similar worldwide, but corporate criminality in Japan is unusual in one notable respect.

"Low-level people are generally honest, but it is surprising how arrogant and dishonest some senior and even publicly prominent people are," O'Keefe said. "Sometimes they

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MICHAEL O'KEEFE

Kroll International Inc. managing director

think their social status has given them a carte blanche to behave badly."

To combat irresponsibility at the top, and boost Kroll's business in Japan, O'Keefe wants the government to draw up corporate governance laws, such as the Sarbanes-Oxley legislation passed by the U.S. Congress in July. The law strengthens independent audit committees and empowers them to employ outside investigators.

Though Kroll has some foreign rivals in Japan, most of

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its Japanese competitors are small and their staff have neither the language skill set nor the qualifications to deal with problems involving laws in other countries.

But the reverse is not true. Boasting a fairly bilingual work force, a slim majority of Kroll's business in 2001 came from Japanese clients, up from one-third the previous year.

Some business originates from problems with the darkest reaches of Japanese society.

In recent years, the firm has been called in to handle cases of right-wingers in sound trucks targeting firms they believe are either covering up a scandal or an easy mark for extortion, or both.

Unlike cases involving discarded lovers of company chairmen looking to make a fuss, which Kroll often settles with a bung of a few million yen, O'Keefe said, "We typically wouldn't do payoffs or recommend doing payoffs in (the rightist) situation."

Though declining to reveal his "small set of tricks" to handle such cases, O'Keefe did explain the no-payoffs policy.

"The guys in the wagons may have come based on the perception that they are going to earn a lot of money" or that the company is covering up scandals. Disabusing them of both notions can solve the problem, he said.