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Shell companies – Identification of an instrument used for illicit purposes: A Pitch

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Abstract: This pitch letter describes the personal application of the pitching tool developed by Faff (2015, 2018) to a potentially academic topic related to money laundering and corruption in the early stages of research. The pitch template aids in the identification of core elements that form the framework for research. The author provides a brief overview of the experience of using the pitch template and its potential applications.

Keywords: Pitching research; shell companies; money laundering; model development

JEL codes: C51, C53, M40

1. Introduction

Similar to Unda (2015), Rekker (2016) and Wallin & Spry (2016), this pitch letter describes the application of "pitching research" template developed by Faff (2015), and regularly revised such as by Faff (2017, 2018), to a potential academic research topic in the field of money laundering. With regards to my academic and professional background, I am currently pursuing my M.Phil. at Bond University, Gold Coast, Australia and have worked in the field of fraud and anti-money laundering investigations with firms such as KPMG and EY and hold relevant certifications in the area. My interests around shell companies and more broadly in the field of money laundering and fraud investigations stems from my work experience as a forensic risk consultant.

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I started my course in January 2018, so I have just completed a few months of my degree and am still in the early stages. As part of my degree, I was required to complete "RBUS6914 – Process of Research in Business" to aid my skill development and undertook it in the first semester of my degree (March 2018). The course aimed to explore the ways researchers could use the pitching template to articulate their thoughts into a research proposal and convey it in the most succinct manner possible. Initially, I had inhibitions about the course, and I was not sure of the kind of value and knowledge I would gain and the ways I could use the pitching template given the early stage I was in my degree. I faced difficulty in conveying the knowledge gained by working in the field and through my initial readings to my supervisors in a concise manner. However, the "pitching" framework helped me overcome that difficulty. Faff (2015, 2018) "pitching" framework acted as a tool to align my ideas and identify research opportunities and concisely present the same to an academic expert.

I started using the "pitching" framework to reverse-engineer the relevant literature and identify potential opportunities for further research. The ability to comprehend the literature efficiently helped me articulate my thoughts and turned out to be an essential step in generating innovative research ideas. Stokes (2013) highlights the need for generating creative research ideas keeping in mind factors such as the intersection of a researcher's passion, the journal's interest, and the researcher's skills to conduct research. The pitching framework helps in accomplishing just that by incorporating various elements in the tool.

My application of the pitching template was different from many of my peers in that I used the template towards the development of a topic for my proposed research. I, initially, used the tool to reverse engineer relevant literature and then used the comprehended material to come up with a related topic in the area. The pitching tool acted as a pathway to explain concisely what is done, why it is exciting and what it adds to the literature, consistent with the views of Bradbury (2012) required for gaining the attention of editors and readers alike.

My approach for the pitch completion was non-linear and was formulated by using the pitching tool to reverse-engineer relevant literature and then using the same framework to propose a new topic. The adoption of tool to reverse-engineer relevant literature on shell companies, corruption and fraud detection models aided me in the formulation of my research idea by identifying key papers (Item E) for my research. With regards to '3-2-1' template design, the idea of the research, along with the motivation, was identified through gap-spotting the relevant literature. Further, the data (Item F) was available through Transparency International UK. Transparency International UK, an anti-corruption NGO, used open-source data from various investigation reports dating back to 2004, records and leaked documents from Open Corporates and UK Companies House, in its report published in 2017 called "Hiding

in Plain Sight: How UK Companies are used to Launder Corrupt Wealth" (Cowdock, 2017). Regarding Tools (Item G), a brief description was provided due to lack of awareness of various techniques that could be used for development of the model. The limitations regarding the same were highlighted in Other Considerations (Item K) along with other assessment of obstacles in research related to its outcome. Additionally, the guidance required from supervisors related to their field of expertise was also mentioned in Other Considerations (Item K). Finally, the significance of the research was established through What's New and So What (Items H and I) and concluded with the holy grail, that is, Contribution (Item J).

The rest of the paper is organized as follows: Section 2 provides a brief commentary on the pitch. Section 3 highlights personal reflections about the pitch exercise followed by the last section outlining the conclusion.

2. Brief Commentary on the Pitch

Table 1 shows the completed pitch on shell companies. The primary objective of the study as stated in the Basic Research Question (Item B) of the pitch template was to develop a model to identify shell companies being used for illicit purposes. This pitch laid down the foundation of the work I would be undertaking as part of my M.Phil. and PhD. The critical papers identified were Allred *et al.* (2017), Alstadsæter et al. (2018) and Song *et al.* (2014). Allred *et al.* (2017) and Alstadsæter *et al.* (2018) provide an overview of the existing literature surrounding shell companies, and Song *et al.* (2014) gives a direction into using various techniques for the development of a model. The motivation for my study originated from the use of shell companies as a tool for illicit purposes such as bribery, corruption, tax evasion, terrorist financing and so forth. Therefore, making it essential to identify and distinguish whether a shell company is being used for an illicit purpose or not. The critical elements of the research are explained through Idea, Data and Tools (Item E, F, and G respectively). Idea draws light on the core idea and central hypothesis of my research along with the existence of a theoretical tension. Data provides a brief overview of the dependent variable and the possible independent variables for the study. Tools that are meant to be used to carry out the research are yet to be identified, and hence a brief description is provided of what is intended to be used. The novelty and the significance of the study are explained through Items H and I, namely, What's New and So What. Further, the contribution the study is likely to make to the literature is also specified in the pitch template. Other considerations consider the resources needed to complete the research and the possible obstacles that might come during its course.

Table 1: Completed 2-page template on Shell Companies

Pitcher's Name	Milind Tiwari	For Category	Research Proposal	Date Completed	17/05/18
(A) Working Title	Shell Companies: Identification of an instrument used for illicit purposes				
(B) Basic Research Question	How to develop a model to identify shell companies being used for illicit purposes?				
(C) Key Papers	Allred, B.B., Findley, M.G., Nielson, D. & Sharman, J.C. (2017) "Anonymous Shell Companies: A Global Audit Study and Field Experiment in 176 Countries", *Journal of International Business Studies*, vol. 48(5): 596-619. Alstadsæter, A., Johannesen, N. & Zucman, G. (2018) "Who owns the wealth in tax havens? Macro evidence and implications for global inequality", *Journal of Public Economics*, vol. 162: 89-100. Song, X., Hu, Z., Du, J., & Sheng, Z. (2014) "Application of Machine Learning Methods to Risk Assessment of Financial Statement Fraud: Evidence from China", *Journal of Forecasting*, vol. 33(8): 611-626.				
(D) Motivation/ Puzzle	Shell companies have no physical presence and economic value. These entities can have legitimate purposes such as use in reverse merger thus providing access to formal economy and protecting small entrepreneurs from bankruptcy risks. However, they may be used for illicit purposes such as bribery, corruption, money laundering, terrorist financing by acting as a corporate veil to hide ultimate beneficial owner information. Therefore, it becomes essential to identify shell companies being used to launder the proceeds of illicit activities.				
THREE	**Three core aspects of any empirical research project i.e. the "IDioTs" guide**				
(E) Idea	The core idea is to develop a model that would facilitate the identification of shell companies being used to launder illicit proceeds of crime. The dependent variable will be a binary variable indicating whether the shell company is used for illicit activities or not. The key independent variables will be chosen based on literature on shell companies and fraud detection models such as financial statement items (consistent with Gepp (2015)), companies where company service provider (CSP) act as directors (consistent with Allred *et al.* (2017)), entities belonging to countries with higher offshore wealth to GDP ratios and so forth. The central hypothesis is that analysis of shell companies associated with laundering and their characteristics would facilitate a model development that could be used to identify shell companies being used for illicit activities. The theoretical tension lies in using a more feasible approach to combat the hiding and laundering of illicit proceeds rather than extending the existing literature of regulations aimed at determining ultimate beneficial owners and regulation of CSPs to promote a transparent corporate governance regime that can be used to hold accountable the beneficial owners in case of wrongdoing.				
(F) Data	Transparency International's data on UK incorporated shell entities which were involved in various corruption schemes will be taken. The data will need to be cleaned and organized for handling missing values in the financial statements. The data comprises of three types of entities, namely, limited partnership, limited liability partnership and limited liability companies. A control sample will be created by choosing matching entity types from the UK Companies House.				

Pitcher's Name	Milind Tiwari	For Category	Research Proposal	Date Completed	17/05/18
(G) Tools	A quantitative framework for estimating the model and testing it on the control sample to check for accuracy and power of the model. Consistent with Gepp (2015) and Song *et al.* (2014), various statistical as well as machine-learning, decision-tree and neural networking tools will be used to identify characteristics in data for model development.				
TWO	**Two Key Questions**				
(H) What's New?	Significant literature exists on enhancing regulations regarding beneficial ownership of shell companies and regulating CSPs. However, no prior study exists on coming up with a model to identify shell companies being used to hide and transfer illicit proceeds and that is where the novelty of idea lies. The novelty can be represented in the form of Mickey Mouse Venn diagram, with the three aspects being, shell companies for illicit activities, fraud detection models and international standards for shell companies. Their intersection represents the novelty of this idea.				
(I) So What?	Shell companies incorporated in the UK were identified as being associated with laundering 80 billion pounds of stolen money between 2010 and 2014. Shell companies are the most commonly used vehicle in cases of corruption. The model would facilitate banks, financial institutions, anti-corruption NGOs, regulatory authorities and law enforcement agencies in identifying shell corporations being used for illicit purposes to prevent the continuation of such activities within the available resources and therefore saving an enormous amount of global money lost to the underground economy.				
ONE	**One Bottom Line**				
(J) Contribution	The study contributes to the literature of shell companies by shifting the focus from regulatory changes and implementation to model development to identify shell firms set up for illicit purposes. Such a model would help banks, financial institutions, law enforcement agencies and regulatory authority to combat the fight against illicit financial flows keeping in mind the limited resources. Further, the model would serve as a tool in the identification of lax implementation of recommended international standards related to shell companies owing to cost involved and lack of available resources among other factors. The implementation of standards would strengthen transparency over who owns and control companies and tackle tax evasion, combat corporate misconduct and other illicit activities such as terrorist funding.				
(K) Other Considerations	External Collaboration: Model development training will be taken from supervisors with a history of work in fraud detection model development (Adrian Gepp and Kuldeep Kumar), and Quantitative methods training from coursework in the following semester. Target Journal: Journal of Forecasting, Journal of Public Economics Risk Assessment: 1. Overall risk: Moderate; 2. No result Risk: Moderate as the chances of Type 1 and Type 2 errors cannot be predicted. However, analysis of the characteristics of entities used for laundering would facilitate a development of typology exhibited by entities in the UK; 3. Competitor Risk: Low; 4. Risk of Obsolescence: Low, however, the current amendments in rules regarding beneficial ownership and its impact on tax havens regarding implementation is yet to be assessed.				

3. Personal Reflections on the Pitch Exercise

The pitching template has helped to refine my ideas and come up with a potential topic for my research. From my experience so far as well as that of my peers, the pitching template has wide-ranging applications such as reverse engineering of relevant literature (Salehudin, 2017), coming up with new topics of research and facilitating a base for conversation with supervisors (Rekker, 2016), facilitating collaboration (Wallin & Spry, 2016). As Grant & Pollock (2011) points out, an introduction sets the expectations for a reviewer from a particular article, and hence it is essential to write a compelling introduction to intrigue the reader and generate interest in the article. I believe the template can be used as a guidance tool to write upon various sections in an article, especially the introduction, as it seeks answers to questions which could contribute in writing an effective introduction. The application of the pitching tool in writing other sections of an article or thesis may also be considered.

I have had some substantial takeaways from using the pitching template. The flexibility in usage of the pitching template at any stage of research is quite beneficial, especially for novice researchers like me, who are in the early stages of their course and require a way to streamline their respective research ideas. I am likely to use the pitching template further as I progress to aid me in my research. Further, the emphasis given upon core elements of research helps in developing clarity of thought by engaging in key aspects of one's research. Moreover, the identification of novelty using Venn Diagram, as presented in Figure 1, enables a researcher to visualize and present the novelty of the idea as well as its significance to the stakeholders. The time spent on thinking about each item in the pitching template and answering them can help in saving a lot of time and confusion in later stages of research by establishing clarity of what needs to be done.

Figure 1: Mickey Mouse Venn Diagram applied to my Pitch

4. Conclusion

This pitch letter provides an explanation of a pitching template example for a topic on money laundering determining the use of shell companies for illicit purposes. The pitch presented was developed during the early stages of the research degree and hence highlights the usage of the pitching tool as developed by Faff (2015, 2018) at various stages of the research degree. The formulation of a pitch has given a direction to my future readings as well as multiple aspects which I should focus on to complete my research. The pitching template facilitated a dialogue between my supervisors and me. I have used it extensively as a tool for reverse-engineering of relevant literature and to propose new ideas. The framework tends to provide support to the chosen problem by questioning aspects critical to successful completion of research. I would suggest the use of pitching template to my peers for initiation of conversation, for collaboration, for comprehending existing literature, for the proposal of new ideas and even to use it in writing of several sections of a research project.

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