



ANTI-BRIBERY & CORRUPTION BENCHMARKING REPORT – 2017

Beyond Regulatory Enforcement:
The Rise of Reputational Risk

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FOREWORD

It is with great pleasure that we present to you the **2017 Anti-Bribery and Corruption Benchmarking Report** (“the ABC Report”). Kroll and Ethisphere once again have partnered to produce this joint Report highlighting key anti-bribery and corruption trends affecting companies globally. The theme of this year’s “ABC Report is Beyond Regulatory Enforcement: The Rise of Reputational Risk”. Thanks to input from hundreds of compliance leaders from around the world, we are excited to share with you the perceived strengths and weaknesses of anti-bribery and corruption programs today, the focus of anti-bribery and corruption experts going forward, and the risk mitigation practices that various companies are employing.

First published in 2011, the ABC Report aims to give compliance professionals a comprehensive view of the types of bribery and corruption risks they routinely face, as well as the data to enable them to advocate effectively. We launched this year’s survey to a global audience in November 2016, asking a variety of questions about third party due diligence, stakeholder engagement, and merger and acquisition activity. We also included open response questions to let survey-takers express their thoughts more directly. We collected 388 qualified responses from senior-level executives working in ethics, compliance, and/or anti-bribery and corruption. They included both public and private companies hailing from several dozen industries and operating around the world.

Data garnered from the survey, combined with analysis of Ethisphere’s data on the World’s Most Ethical Companies® (“WMEC” or “Honorees”) and insights from Kroll’s globally recognized experts in the field of anti-bribery and corruption, helped to inform the Report. We are very grateful for the continued participation of everyone involved.

Throughout this Report, you will see a number of interesting trends, many of which correlate to broader market developments. Two trends in particular stand out:

- Compliance officers continue to face pressures from the global growth of their organizations, as well as a heightened regulatory focus on the enforcement of anti-bribery and corruption laws from enforcement authorities around the world.
- For Compliance teams, reputational risk has outpaced corruption risk as the most significant area of concern with third parties.

Fortunately for compliance officers, anti-bribery and corruption efforts are becoming increasingly integrated with broader company strategy and business trends. We see clear growth in awareness and involvement regarding anti-corruption programs from not only boards of directors, but also executive teams. Finance teams in particular are emerging as an invaluable partner for the compliance officer and a strong line of defense against bribery and corruption risks.

All of this and much more is set out in this ABC Report. We hope the information continues to serve as a guidepost for ongoing efforts to develop best-in-class anti-bribery and corruption programs that protect both individual organizations as well as the integrity of global business.

Throughout this Report, the term “anti-bribery and corruption” and the reference “ABC” are intended to encompass compliance efforts to mitigate the risks of both bribery and corruption in global business transactions.

Steven J. Bock & Erica Salmon Byrne



EXECUTIVE SUMMARY

We continue to witness the advancement of anti-bribery and corruption compliance and enforcement around the globe, despite an unpredictable political environment in the U.S. and across the world. To be sure, uncertainty is rising around a variety of regulatory initiatives from numerous directions, including political and economic challenges in Brazil, potential changes in EU membership, new regulations and increased enforcement across countries in Asia-Pacific, and proposed adaptations of the Dodd-Frank Act in the U.S.

At the same time, however, we have seen new regulatory guidance and legislation that seeks to harmonize expectations for organizations operating globally, including a new anti-bribery and corruption law in France, new guidance from the International Standards Organization in the form of ISO 37001, and the Organisation for Economic Cooperation and Development's latest guidance on best practices for supply chain due diligence in the garment and footwear sector. Most recently, the U.S. Department of Justice issued DOJ Guidance 2.17, "Evaluation of Corporate Compliance Programs" ("DOJ Guidance 2.17"), which sets out the expectations—in the form of key questions asked by category—of this powerful and often trend-setting law enforcement agency on the autonomy, independence, and reach of a compliance program.

Perhaps in line with this regulatory trend, or perhaps as a result of reputational considerations described below, engagement across the organization with anti-bribery and corruption compliance initiatives grew again this year. Investors also increasingly understand that doing business the right way is an effective path to sustainable and profitable growth. In fact, the publicly traded companies among Ethisphere's 2017 WMEC outperformed the S&P 500 by 9.6 percent over the last four years—a substantial data point underpinning the link between ethics and performance.



However, optimism about the increase in corporate-wide involvement in anti-bribery and corruption efforts is tempered by the expectation of most respondents that their ABC risk will not improve in 2017. The majority (57 percent) of survey respondents expect their organization's risks to persist at the same levels as last year, 35 percent expect increased risk, and 8 percent expect decreased risk this year. For those who felt their risks would rise, the main reasons cited were more third party relationships and an increase in global regulatory enforcement—both factors out of the compliance officer's control. Those who reported a decrease in risk from last year credited the improvement to investments made in their programs.

Some key findings from our study include:

The Rise of Reputational Risk

Reputational risk is on the minds of most respondents, reflecting an understanding of the importance of the company's reputation in the eyes of its stakeholders, including employees, customers, regulators, shareholders, and investors. General reputational concerns went from being the least likely reason for a third party to fail a company's vetting standards to now being the most likely reason—a stunning change in just one year.

In a related development, boards of directors are joining senior management in getting more involved in the oversight of an organization's anti-bribery and corruption efforts. Boards are increasing their activities and enhancing their knowledge and expertise in order to enable themselves to better evaluate and monitor the effectiveness of the company's anti-bribery and corruption program.

ABC Programs: Ongoing Challenges, New Lines of Defense

According to a majority of respondents, the risk landscape for bribery and corruption is not improving. Fully one-third of respondents expect their risks to actually increase in 2017. Respondents believe that the top risks to their anti-bribery and corruption programs will come from third party violations (40 percent), a complex global regulatory environment (14 percent), and employees making improper payments (12 percent).

No doubt this risk level is weighing heavily on the minds of compliance officers: Not only do a majority feel their resources are insufficient to support their ABC efforts, they also continue to be concerned about their own personal liability, with one-third reporting a greater level of concern in this area than the prior year. However, there is good news too for the compliance officer. Many respondents say they are getting invaluable support from their Chief Financial Officers and Finance teams. With an organization-wide view of operations and transactions, Finance is turning into a formidable line of defense in the fight against corruption.

Monitoring: The Evolving Role of Compliance Post-Onboarding

Regulators around the globe—from the UK to the U.S. to Brazil—have repeatedly said that companies are expected to know the third parties with whom they are transacting business and what services those third parties are performing for them. The new ISO 37001 standards on Anti-Bribery Management Systems highlight the same. Simultaneously, however, increasingly complex third party networks have become the norm. Forty percent of respondents do business with over 1,000 third parties in a given year (excluding customers), and nearly one-third (29 percent) of respondents manage over 5,000 third party relationships. That poses a massive challenge.

Despite efforts to evaluate third parties during the selection and onboarding phase, the majority of respondents (55 percent) report experiencing issues that arise **after** the completion of initial screening and due diligence. Respondents attribute this practical reality to a wide variety of reasons, including misconduct that arose subsequent to the time of initial onboarding, noncompliant behavior that was concealed or not disclosed by third parties either pre- or post-onboarding, and red flags not discovered because of inadequate initial scoping of the original diligence. On the other hand, the results show that the most common way third party issues are identified post-onboarding is through continuous monitoring and due diligence. Collectively, these findings make a strong case for the value of ongoing or at least periodic due diligence efforts.

M&A: A Deeper Look

Mergers and acquisitions continue to challenge compliance officers from an anti-bribery and corruption perspective. Guidance, such as DOJ Guidance 2.17 and the OECD's "Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Section,"¹ sets the expectation that an acquiring company must understand the company they are purchasing. Despite regulatory guidance, however, this year's findings show that respondents are not conducting the levels of due diligence we would have expected on M&A targets or on the third parties of those targets.

Once a deal is complete, companies should follow through and ensure that the post-deal integration goes smoothly, particularly in regards to mitigating supply chain risk. Companies are advised to adopt a common sense, risk-based approach that takes into account how the newly acquired company screened its third parties pre-acquisition, then move quickly to incorporate those third parties into their existing programs.

¹ https://mneguidelines.oecd.org/OECD-Due-Diligence-Guidance-Garment-Footwear.pdf?_ga=1.109796229.1811459815.1487865334

SECTION ONE

THE RISE OF REPUTATIONAL RISK

The issue of reputational risk surfaced in all aspects of this year's research—from interviews with Kroll's subject matter experts, to Ethisphere's analysis of data obtained from the WMEC process, to the results of our joint Anti-Bribery and Corruption survey. It is clear to us that the anti-bribery and corruption program can be viewed not only in the context of regulation, but also more broadly as a means of protecting what is perhaps an organization's most valuable asset – its reputation.

Reputational risk leads to more focus on anti-bribery and corruption from the board and leadership.

We saw a marked increase in discussions about potential bribery and corruption exposure among boards of directors. Among the leading companies recognized as WMEC Honorees, 14 percent more are including anti-bribery and corruption in director onboarding and periodic training this year as compared to 2016. Similarly, there was a 20 percent increase in the number of Honorees that now cover anti-bribery and corruption concerns during their ethics and compliance program updates with the board. “This reflects the increased understanding on the part of these directors that it is time well spent,” said [Erica Salmon Byrne](#), Executive Vice President at Ethisphere. “Directors—particularly independent directors—know that this is a significant reputational risk for the organizations they are charged to oversee, and they want to be well-grounded in the steps the company is taking to address the risk. Equally importantly, they want to know how they can help.”

Regulatory expectations are also placing more pressure on boards to escalate their compliance-related activities and enhance their levels of expertise. Section 2 of DOJ Guidance 2.17, titled “Oversight,” specifically indicates that the U.S. DOJ will look at the compliance expertise available on the board as well as the information provided to the board when evaluating a program’s effectiveness.

The survey data suggests that senior leadership’s engagement regarding anti-bribery and corruption efforts is on the rise. Fifty-one percent of respondents state that senior leadership at their organization is “highly engaged” with anti-bribery and corruption efforts, reflecting a 4 percentage point increase over the previous year.

[John Arvanitis](#), Associate Managing Director at Kroll, says this level of engagement is necessary in order to establish the requisite tone from the top, particularly with respect to third party risk management. According to Arvanitis, organizations must have and maintain a “24/7 commitment from the C-suite to their program.”

What this means for anti-bribery and corruption programs.

According to [Joseph Spinelli](#), Senior Managing Director at Kroll, compliance officers are emphasizing these reputational concerns due to the damage that organizations can suffer from a violation. Spinelli adds, “That’s something that’s hard for a company to recover from.” [Steven Bock](#), Global Head of Operations for Kroll’s Compliance practice, agrees, noting that he sees a “heightened level of concern across corporations regardless of the regulations they are subject to. No industry is immune from what is deemed acceptable and appropriate behavior in the court of public opinion.”

Mitigating reputational risk in the context of anti-bribery and corruption programs starts with an understanding of where these programs are most vulnerable. Respondents to our survey believe third parties are the biggest risk to their company’s anti-bribery and corruption program. Probing deeper, respondents say their top concerns with third parties are reputation and bribery and corruption risks. Furthermore, for respondents who are very or somewhat concerned about these risks, reputation and corruption are equally problematic (93 percent and 92 percent, respectively). Consistent with these stated concerns, for the respondents who rejected one or more third parties at the outset of screening, general reputation concerns were the most likely reason. This is in stark contrast to the 2016 ABC Report; at that time, general reputation and integrity concerns were the least likely reason third parties failed to meet company standards. This marks a stunning reversal in just one year.

Q: Rank the Following Reasons That Potential Third Parties Fail to Meet Your Standards Based on How Frequently They Occur (i.e., 1 Indicates the MOST Common Reason, and 7 Indicates the LEAST Common Reason).

Reason	2016 Overall Rank	2017 Overall Rank
General Reputational or Integrity Concerns	7	1
Conflicts of Interest	Not an Option for 2016	2
Questionable Relationships With Potentially Exposed Persons	3	3
Unusual Contract and Payment Structures	5	4
Opaque or Suspect Corporate Structures	4	5
Clear-cut Evidence of Bribes in Previous Business Dealings	6	6
Known Dealings With Sanctioned Entities	2	7
Other	1	Not an Option for 2017

SECTION TWO

ABC PROGRAMS: ONGOING CHALLENGES, NEW LINES OF DEFENSE

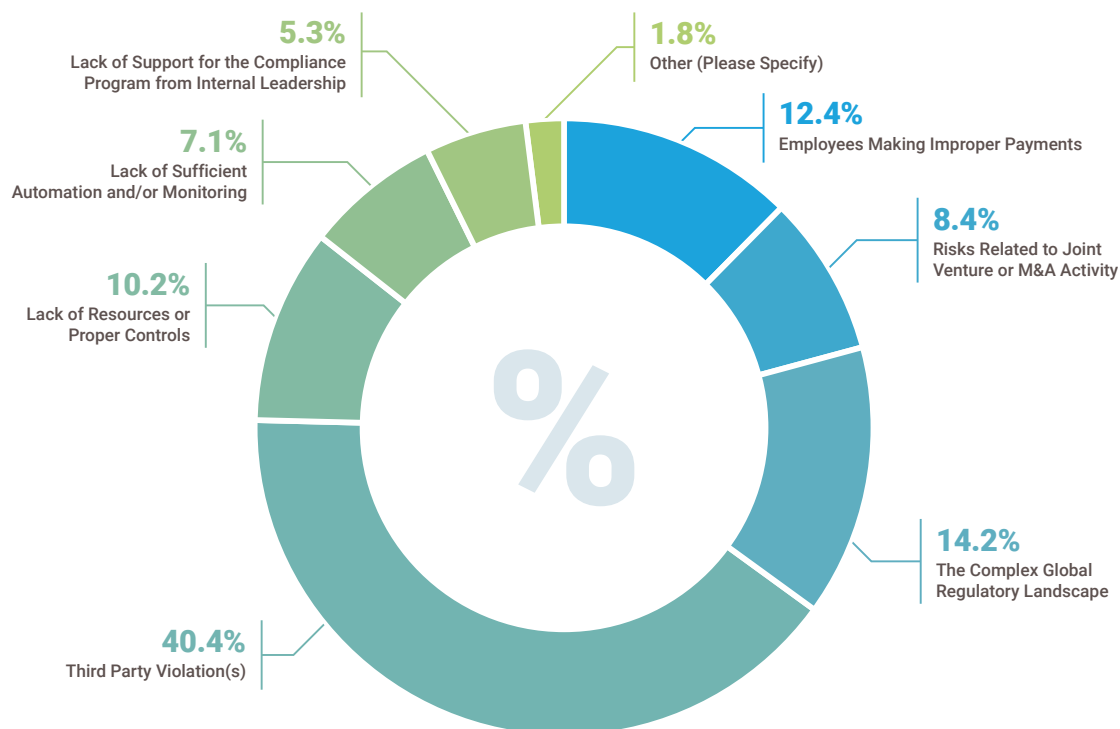
According to this year's findings, compliance officers are facing multiple, ongoing challenges with their anti-bribery and corruption programs. The majority believe the risk landscape is either not going to improve or actually get worse in 2017, their resources are insufficient to support their efforts, and they themselves may now be held personally liable for their organization's compliance violations. However, many compliance officers are finding an invaluable partner in their organization's Chief Financial Officer and the Finance team. With an organization-wide view of operations and transactions, the Finance team is turning into a formidable line of defense against corruption.

Anti-bribery and corruption risks not improving.

Not only do a majority (57 percent) of survey respondents expect no improvement in their organization's risks in 2017, fully 35 percent expect increased risk; only 8 percent expect decreased risk this year. For those who felt their risks would rise, the main factors cited were more third parties and an increase in regulatory enforcement—both of which are factors substantially out of the compliance officer's immediate control. Those who reported a decrease in risk from last year credited the improvement to investments made in their programs.

When respondents were asked what they perceived to be the top risk to their organization's anti-bribery and corruption program in 2017, 40 percent of respondents cite third party violations.

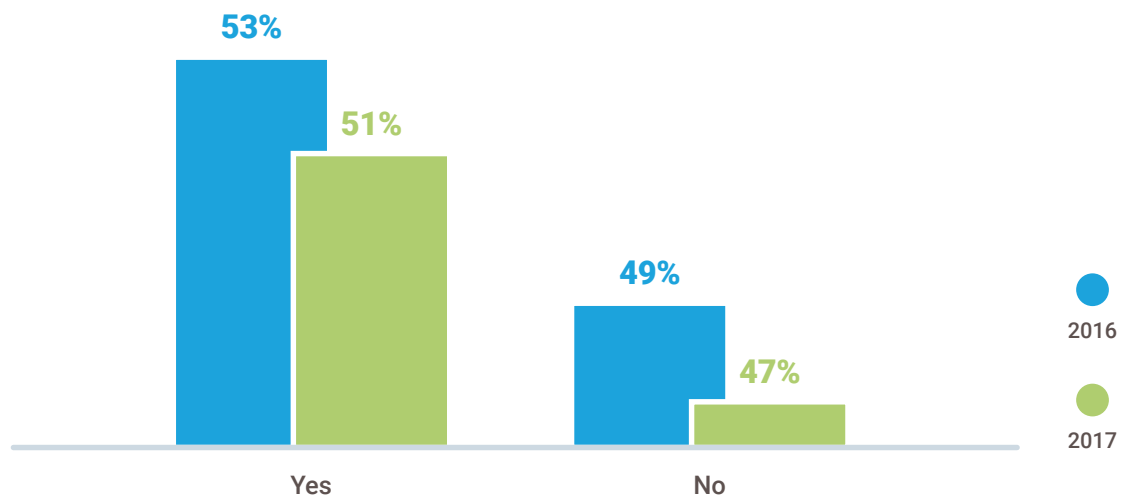
Q: What Do You Perceive to Be the Top Risk to Your Anti-Corruption Program in 2017?



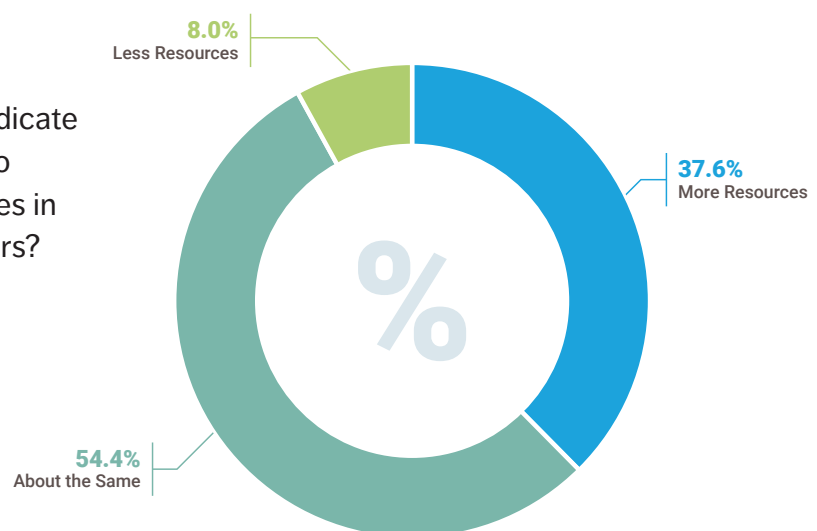
Insufficient resources allocated for anti-bribery and corruption programs.

Compared to 53 percent of respondents in 2016, only 51 percent of this year's respondents feel they have sufficient resources to support their anti-bribery and corruption efforts. Overall, approximately 54 percent of respondents indicate that their organizations had dedicated about the same amount of resources in 2016 as they had in prior years, while 38 percent note they had dedicated more resources.

Q: Do You Believe You Have Enough Resources to Support Your Organization's Anti-Corruption Efforts?



Q: Did Your Organization Dedicate More or Less Resources to Bribery & Corruption Issues in 2016 Than in Previous Years?



Managing anti-bribery and corruption programs comes with personal risk.

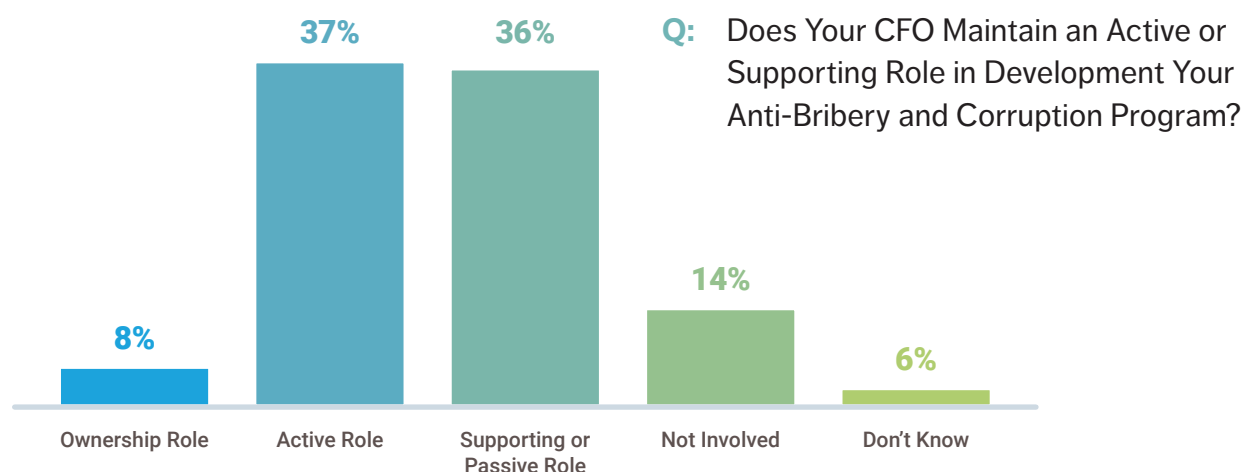
Respondents continue to be concerned about personal liability, with one-third of respondents reporting a greater level of concern in this area than the prior year. This builds on the significant increase in personal liability concerns that spiked in findings from the 2016 ABC Report among risk professionals, especially those working in regulated industries. “This may be related to the cumulative effect of the UK Senior Managers Regime, the Yates Memo in the U.S., the increased use of deferred prosecution agreements (DPAs), and new tougher legislation like the French Loi Sapin 2 (Law n° 2016-1691). Together, these regulatory changes make higher fines and prison sentences a much sharper risk for directors and risk professionals,” notes [Kevin Braine](#), Kroll’s Managing Director and Head of Compliance, EMEA. “There is also the very real possibility that favourable DPAs will be offered to organizations that deliver over to the regulator or law enforcement a culpable individual. As a result, people are more conscious that their job titles carry more personal liability—which is especially problematic in high-risk markets and sectors.” There is a troubling aspect to this development as well: Qualified compliance professionals may be chilled from taking on this key governance role in organizations in high-risk industries – in the end creating the potential for even greater risks to emerge and take hold.

“As a result, people are more conscious that their job titles carry more personal liability.”

– [Kevin Braine](#)

Chief Financial Officer and Finance team providing new lines of defense.

Despite being challenged on multiple fronts with managing their organization's anti-bribery and corruption efforts, many respondents say they are getting invaluable support from their Chief Financial Officers. This is not surprising, as the Chief Financial Officer and the Finance team often have insight into the operations of multinational enterprises through their dealings with complex cross-border accounting controls and awareness of customs regarding local payment terms.



“No matter how many compliance controls and procedures you have in play, the Finance function and ultimately the CFO will always be the third line of defense,” notes [Zoë Newman](#), Managing Director at Kroll. “Local country operations are often the most at risk in terms of bribery and corruption. They’re often small, acquired, and isolated from the head office. As a result, the practicalities of implementing head office compliance controls locally are more complex and fraught with risk, particularly when dealing with an autocratic country head. In these situations, the Finance function plays an even more important role. Even if they report directly to the country head, it is critical that there is sufficient oversight by the CFO, and that the local function is empowered to question transactions, ensuring that they are carefully reviewed before being signed off and authorized by finance.”

In fact, those respondents who indicated their CFOs played an active role in their organizations' programs were almost four times as likely to feel “extremely prepared” to manage their anti-bribery and corruption risks. Additionally, 70 percent of those who did not have an actively involved CFO felt they did not have enough resources to manage anti-bribery and corruption risk (as opposed to the overall rate of 49 percent). With a growing universe of third parties and regulatory enforcement driving an increase in overall risk, the Finance department's oversight of local business records and close eye on local operations remains one of the best ways to limit potential exposure.

GLOBAL ANTI-CORRUPTION PROGRAMS



Kristen Ludgate

Vice President, Associate General Counsel,
Chief Compliance Officer, 3M, USA



Ricardo Turra

Global Director of Internal Audits,
Votorantim Cimentos, Brazil



Anna Ronngard

Sustainability Standards Manager,
H&M, Sweden

How does anti-corruption factor into your broader compliance program? How much does it weigh on your team's mind or serve as a focus area versus other compliance challenges? Has that changed in recent years?

Ricardo Turra, Brazil, Votorantim Cimentos

Anti-corruption policies and training have been a topic for some time in our programs. With recent broader and more stringent rules throughout the globe, we have initiated additional e-learning programs and implemented more short, direct communication in order to reach a larger population and also allow more interest on the subject. Usually the focus of compliance initiatives is more based on the lack of knowledge or grey areas, such as sexual and moral harassment, disputes on legal non-mature issues, compliance with new and more stringent regulations applicable to Votorantim Cimentos and its subsidiaries.

Kristen Ludgate, USA, 3M

Like many people I wear two hats. I'm the Chief Compliance Officer, so I look across all of the compliance areas in the company, but then I also run the compliance and business conduct function, and in that function actually one of the things we do is run the anti-corruption program. And I would say the commitment's been pretty steady for the last several years. I think like many companies 3M invested more in its anti-corruption program as FCPA enforcement started to scale up, and we certainly haven't drawn back those resources and if anything the standards have become much more global, and much more important in a lot of our businesses, so it's an important pillar of the program and it's been an important pillar for a while, so there haven't been real material changes in the last few years on that.

Anna Ronngard, Sweden, H&M

Anti-corruption is as important to H&M as any other sustainability related issue. We have defined four business values everyone has to act according to in order to secure healthy and long term business. They are: honesty, integrity, transparency and fair play. We have placed focus on anti-corruption since 2003 but our program has of course developed during the years and is even more extensive today than it was back then.

GLOBAL ANTI-CORRUPTION PROGRAMS

What are the greatest risks you see when it comes to building or executing on an anti-corruption program? Third parties, specific regions of the world, anything like that?

[Anna Ronngard, Sweden, H&M](#)

Of course entering into countries with high level of corruption is a risk and an important challenge that needs to be addressed. We address this risk with extensive awareness-raising activities around the negative impacts of corruption both internally and externally.

[Ricardo Turra, Brazil, Votorantim Cimentos](#)

One major risk is getting proper acceptance and buy-in (or commitment) from top management and the Board of Directors (BoD). In our company this is properly given, but I would rate this as the go-no go deal breaker.

[Kristen Ludgate, USA, 3M](#)

That always depends on who your company is. For 3M—and this is probably true for most companies—third parties are the biggest source of risk for us. And you know, we're a pretty diverse company, we're in a lot of different markets, we sell into 200 countries, we have on-the-ground operations in 70 countries, and we're a B2B company by and large, so we do work with business partners and we sell to governments. So, we have a lot of risk just because of our geographic profile and the fact that we're in a number of sectors like transportation, healthcare, government sales, construction, that have risk in them. I think that for us this is our biggest risk, and it's certainly a primary focus of our program – due diligence, working with third parties, teaching our business folks how to select good, trustworthy third parties.

Do you have any advice for companies in implementing or improving their anti-corruption program globally, such as ways to communicate that resonate globally, benchmarking, and so forth?

[Kristen Ludgate, USA, 3M](#)

You have to design your program to fit your company. You can't just take something off the shelf and adapt it. I think you really need strong management buy-in, because you need influence in local operations. Compliance doesn't really happen at the center of the company, it happens on the ground. If you don't have strong leadership – tone at the top and tone in the middle – you won't get the results that you want to get. We use metrics a lot to communicate to leaders how their local teams are doing. Business leaders respond to metrics. The final thing is, don't underestimate the importance of culture. To the extent we've made changes, it's been to invest more in communications and winning the hearts and minds of all of our people on the importance of integrity as a business imperative.

GLOBAL ANTI-CORRUPTION PROGRAMS

Ricardo Turra, Brazil, Votorantim Cimentos

Defining a global standard and the tone at the top are the main steps for a compliance program. A good global tool that allows capturing allegations and reporting wrongdoing is also a needed investment. The adoption of certain directives which would prove to be more restrictive than certain acceptable behavior in specific locations is also a way to go. In addition, the utilization of all available internal communication tools is a must (either electronic, printed, or verbal). It is also seen as very powerful to have the BoD or the CEO to clearly express that he/she is personally committed to ethics, and that there will be no excuses for non-ethical behavior.

Anna Ronngard, Sweden, H&M

We have one code for everyone, meaning the same rules apply to everyone in the company no matter location. This creates a fair and streamlined implementation in the company. In our code we state our “no gift” policy, this makes it easy for everyone to always decline any gift given and we avoid grey zones.

How do you define success when it comes to anti-corruption? What are key metrics or data points that you rely on?

Anna Ronngard, Sweden, H&M

We have a zero tolerance against corruption and our goal is to detect all violations.

Ricardo Turra, Brazil, Votorantim Cimentos

Success is being recognized by the workforce and the stakeholders for operating and choosing where and how to operate within the expected and acceptable rules. It is hard to define a key metric, but I would believe avoiding scandals and having frequent exposure to public regulators is a great measure to assure the program is successful and being properly utilized by the teams.

Kristen Ludgate, USA, 3M

We have a lot of metrics to measure our cycle time, our level of risk that we see in our due diligence program. We measure our hotline, what kind of investigations do we have, what sort of disciplinary outcomes do we have. And we measure all of those over time and we use that to figure out how we use the resources.

We use other metrics to ensure that the program itself is being deployed effectively. We do deep dive evaluations where cross-functional teams will go into a subsidiary and test transactions, look at implementation of the compliance program, do compliance culture assessments. We rely on our internal corporate audit team to test the implementation of the compliance program, which is good because then we have some governance outside of our team.

GLOBAL ANTI-CORRUPTION PROGRAMS

What kind of lessons can you share with your compliance peers in relation to anti-corruption?

Ricardo Turra, Brazil, Votorantim Cimentos

When a company legacy is at stake due to corruption, there is much to lose. Hours or days can destroy decades spent to create a great brand / name / respect. There is never too much to refresh, remind, invest or check when it comes to anti-corruption. We need to be alert, and being on the game is not an assurance that all is correct, but demonstrates the good faith to achieve proper, ethical behavior.

Anna Ronngard, Sweden, H&M

To be successful you need to have the highest management supporting your efforts and acknowledging the importance of the topic. You also need to be persistent and remember your ethical compass.

Kristen Ludgate, USA, 3M

What I'd say I've learned in working with leaders, if you want to have one value that's most important in combating corruption it's transparency. It's a very chic word these days, people throw it around a lot.

At 3M we have leadership behaviors that everyone is measured on in our performance evaluations every year, and one of them is called "act with integrity and transparency." If you have good transparency – information flowing to compliance, information flowing to leaders, information flowing to executive stakeholders, an environment where people can ask questions – then your program will be more effective, you're more likely to hear about risks sooner in the process, and you can share lessons and learn from your experience.

SECTION THREE

MONITORING: THE EVOLVING ROLE OF COMPLIANCE POST-ONBOARDING

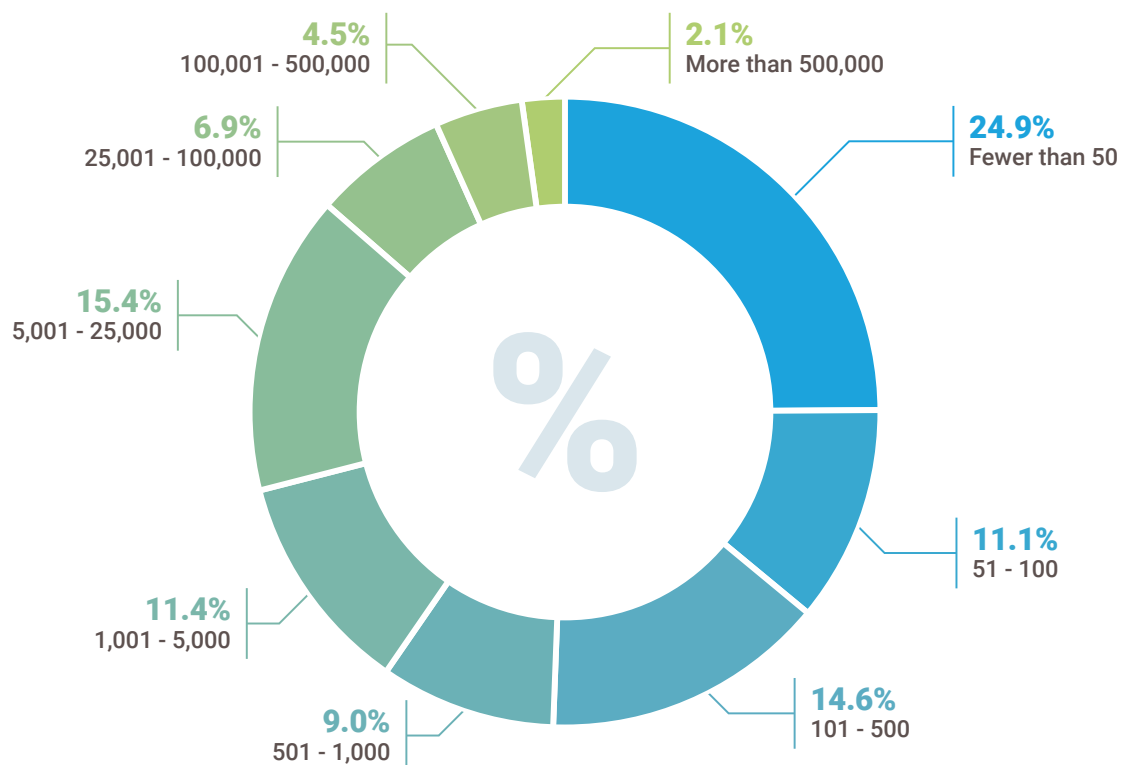
Recent regulatory guidance, such as the UK Bribery Act's focus on "continued and regular monitoring,"² is drawing attention to the need for monitoring third parties long after initial screening and due diligence. With complex third party networks becoming the norm, respondents have found that significant issues often arise post-onboarding. Respondents attribute issues to a wide variety of reasons, including misconduct that arose **after** the initial onboarding, noncompliant behavior that was concealed or otherwise not disclosed by third parties either pre- or post-onboarding, and red flags not discovered because of inadequate initial scoping regarding the depth of the original due diligence. On the other hand, the results show the most common way third party issues are identified post-onboarding is through continuous monitoring and due diligence. Collectively, these findings make a strong case for the value of some type of ongoing or periodic due diligence efforts.

² <https://www.justice.gov.uk/downloads/legislation/bribery-act-2010-guidance.pdf>

Complex third party networks are the norm.

More than 40 percent of respondents to this year's survey indicate that they do business with over 1,000 third parties (excluding customers) in a given year. Nearly one-third (29 percent) of respondents manage over 5,000 third party relationships.

Q: How Many Third Parties Do You Do Business With in a Given Year? For the Purposes of this Questionnaire, "Third Parties" Refers to Any Person or Entity You Partner With in Order to Do Business. Please Do Not Include Customers.



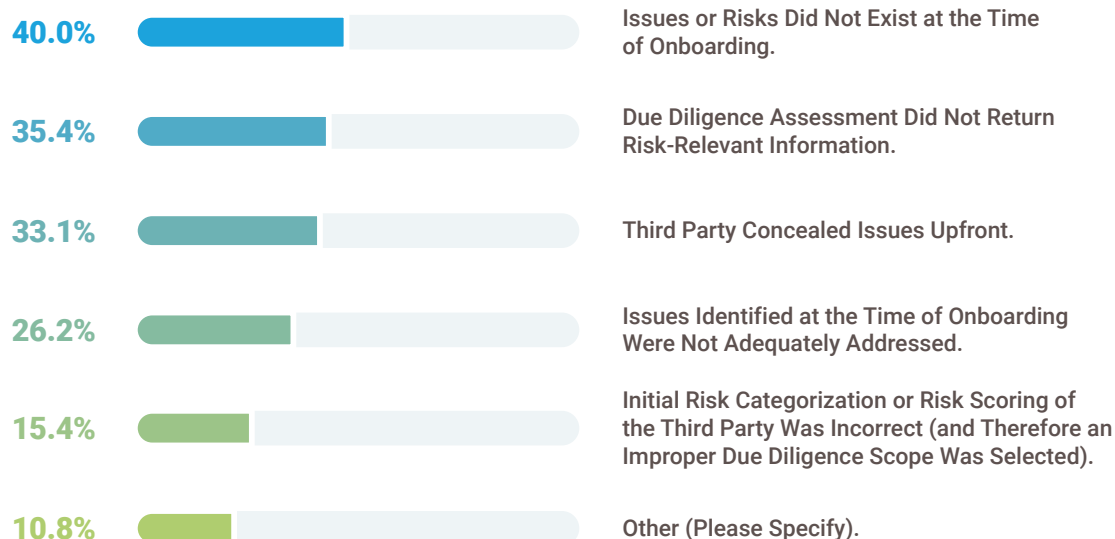
As Arvanitis points out, "With hundreds, if not thousands, of third party relationships around the world, having a robust compliance program that incorporates some level of automation is going to be key for helping organizations effectively manage these relationships, both initially at onboarding and later through ongoing monitoring."

Issues often arise after initial screening and due diligence.

More than half (55 percent) of respondents report that they identified legal, ethical, or compliance issues with a third party after due diligence had been conducted, highlighting the importance of ongoing monitoring. Notably, it was often the case that these issues or risks did not exist at the time of onboarding, as reported by 40 percent of respondents who experienced a post-due diligence issue. Third party concealment poses another problem: One-third of respondents indicate that the third party concealed the issue during onboarding.

Additionally, survey results indicate that there is room for improvement in properly scoping initial diligence efforts. More than one-third of respondents who cited issues with third parties post-onboarding (35 percent) indicate that the due diligence conducted did not return risk-relevant information, and 15 percent say their initial risk classifications of the third party were incorrect. The frequency of post-onboarding issues, the possibility of concealed misconduct by third parties, and gaps caused by initially inadequate scoping all make a strong case for ongoing due diligence efforts.

Q: If You Experienced Issues With Third Parties Post Onboarding, Why Do You Think This Issue Occurred?



Continued diligence effectively identifies issues with third parties post-onboarding.

As part of their efforts to ensure compliance with ethical and legal standards, nearly four out of every five respondents report that their organizations engage in ongoing monitoring of third parties, and nearly half say their organizations also conduct in-depth audits. Furthermore, 30 percent indicate that they monitor all third parties, regardless of their risk profiles. This variation in approach begs the question, “What does an effective due diligence program look like?”

Spinelli suggests taking a risk-based approach that ranks certain risk factors of third parties, then choosing the proper level of due diligence according to the level of perceived risk. He advises, “Risk-rank your third parties into high, medium, or low categories and assign enhanced due diligence to those that fall into the high-risk category.” Data from Ethisphere’s WMEC Honorees indicate that roughly half of all Honorees segment their intermediaries into tiers for the purpose of monitoring and auditing.

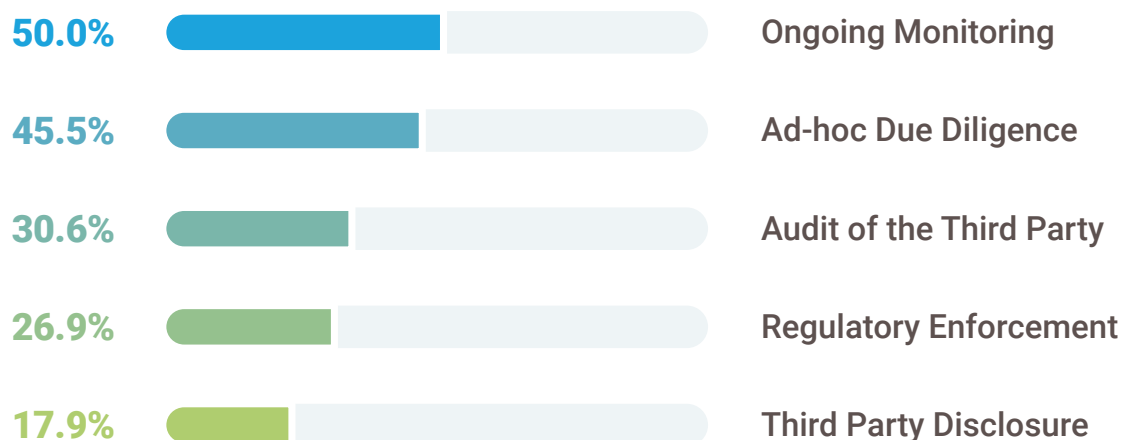
Once risks are categorized, it is imperative to have the right personnel and technology in place to complete the required diligence. Spinelli suggests reviewing the due diligence program to ensure it takes into account “the local language and the culture of the jurisdiction where you are doing business.” He adds, “Where traditional due diligence reporting is out of scope, enlist the help of boots-on-the-ground resources who are familiar with the jurisdiction and are able to get the information needed in a professional and legal manner.”

“Risk-rank your third parties into high, medium, or low categories and assign enhanced due diligence to those that fall into the high-risk category.”

– Joseph Spinelli

Respondents report that proactive diligence efforts, such as ongoing monitoring and auditing, are more effective in revealing third party issues than waiting for regulatory enforcement or self-disclosure. Half of the respondents who experienced issues with third parties after conducting due diligence say that, in part, ongoing monitoring was the reason why the issue eventually came to light. About one-third (31 percent) indicate that the issue was discovered through an audit of the third party.

Q: If You Experienced an Occasion When Legal, Ethical, or Compliance Issues With a Third Party Were Identified After Due Diligence Had Been Conducted, How Did This Issue(s) Come to Light?



Monitoring can aid in preventing violations.

According to [David Liu](#), Kroll's Managing Director and Head of Compliance, Asia Pacific, incorporating ongoing diligence efforts aligns with recent regulatory shifts in Asia-Pacific countries towards improving accountability and self-reporting efforts, in addition to more active (both in speed and penalty) enforcement against offenses by the regulators. Liu adds, "Recent AML regulations focus on tightening internal controls, with new disclosure requirements, enhancement of suspicious transactions reporting, and heightening of reputational risks associated with sanctions."

Spinelli points to the importance of ongoing monitoring to help prevent misconduct and create an audit trail, in case a regulatory infraction occurs. He recommends that companies take an "interval monitoring" approach to ongoing diligence, where the scope and frequency of monitoring efforts is determined based on risk. This is supported by the section of DOJ Guidance 2.17 related to third party management.

A risk-based segmentation of third parties can also help determine how frequently to conduct due diligence. While assessing every third party relationship on a continued basis may be desirable, it is rarely realistic. As [Robert Huff](#), Managing Director at Kroll notes, "With vague regulatory guidance, optimal frequency is subject to interpretation." He continues, "Firms need to find a level of monitoring where they are able to appropriately react, in a timely manner, to any changes in a third party's risk profile."

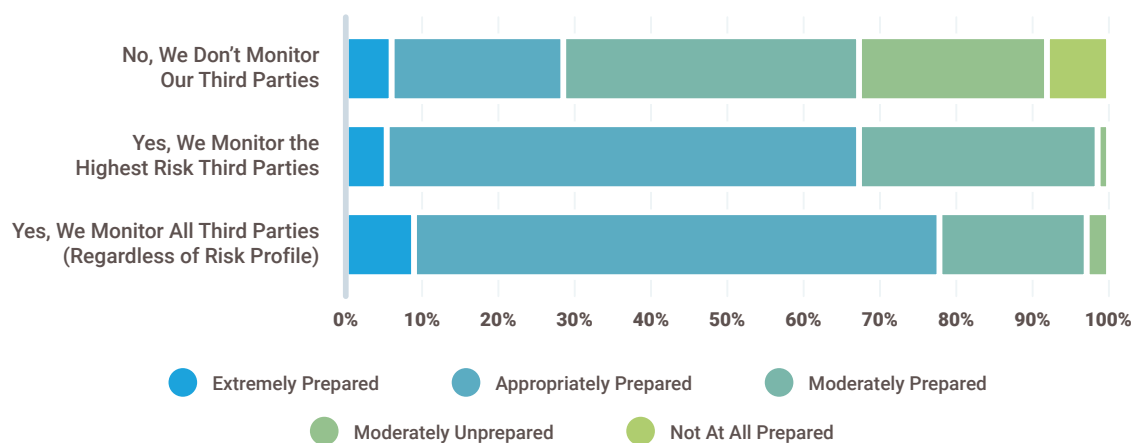
"Firms need to find a level of monitoring where they are able to appropriately react, in a timely manner, to any changes in a third party's risk profile."

– [Robert Huff](#)

Ongoing monitoring of third parties correlates with perceptions of preparedness.

Organizations that do conduct ongoing monitoring report that they are more prepared to address global bribery and corruption risk than their counterparts that do not conduct monitoring. Nearly 80 percent of those respondents who monitor all third parties regardless of risk profile believe they are either extremely or appropriately prepared to address global bribery and corruption risks. Feelings of preparedness drop as the level of ongoing monitoring goes down: Sixty-nine percent of respondents who monitor only the highest risk third parties feel extremely or appropriately prepared, while just 29 percent of respondents who do not monitor third parties feel the same confidence.

Q: How Well Prepared Do You Believe Your Business Is to Address Global Bribery and Corruption Tasks?



SECTION FOUR

MERGERS & ACQUISITIONS: A DEEPER LOOK

Sixty-seven percent of survey respondents report that they had engaged in M&A in 2016, a 5 percentage point increase over 2015. Yet the data shows that respondents are not conducting the levels of due diligence we would have expected on M&A targets or on targets' third parties, particularly in light of applicable regulatory guidance.

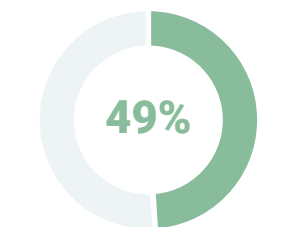
Regulatory guidance establishes an expectation for an acquiring company to understand the company they are purchasing.

Despite regulatory guidance, respondents indicate that they do not conduct the same level of data collection for the third parties of their transaction targets as they do for their organization's own third parties. Similarly, respondents indicate that they collect less ownership data on their transaction targets than they do for their own third parties. This implies that they do not fully understand the risks they could be acquiring through an M&A transaction. By contrast, 81 percent of the 2017 WMEC Honorees indicate that the compliance function has significant input into strategic decisions like M&A activity.

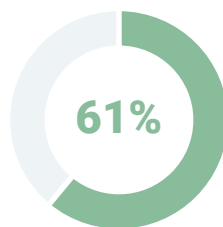
Q: For Companies That Engaged in M&A (or JV or Other Investment-related Activity) in 2016, What Information Do You Collect During Due Diligence?

Respondents indicate that they do not conduct the same level of data collection for the third parties of their transaction targets as they do for their organization's own third parties.

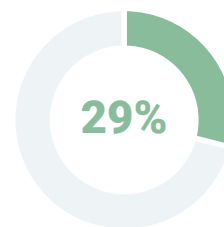
	When Reviewing Transaction Targets	When Reviewing Third Parties	When Reviewing a Transaction Target's Third Parties
Cyber & Information Security Programs	53%	42%	18%
Policy Documentation	52%	45%	18%
Political Exposure and/or State Ownership or Control	51%	59%	25%
Ethics and Compliance & Litigation Record	50%	51%	20%
Location	50%	60%	28%
Ownership Information	49%	61%	29%
Employee Training Program	48%	38%	15%
General Business Reputation	47%	58%	24%
Human Rights & Labor Conditions	43%	43%	15%



49% collect ownership information when reviewing their transaction targets



61% of respondents indicate that they collect ownership information when reviewing their own third parties



Only 29% collect ownership information when reviewing the third parties of their transaction targets

Spinelli notes, “If you look at the case law that’s involved, it’s incumbent on the company that’s purchasing the other company in merger and acquisition situations to ensure that (1) they have an effective program and they’re not inheriting potential FCPA liability and (2) they have also done sufficient third party due diligence. The government will scrutinize you as the acquirer to ensure that you have taken all the steps necessary before you finalize that purchase to make sure that incisive due diligence has been conducted on the incoming company’s third parties.”

“One of the critical components that is missing in M&A is independent due diligence,” says Violet Ho, Senior Managing Director and Greater China Co-Head at Kroll. “When it comes to M&A, both sides have a strong desire to complete the deal, and the ‘check the box’ answers may not be truthful and forthcoming. If you rely on the target’s answers, you may be surprised by what you find after the deal is done.”

In spite of this, 66 percent of respondents who had engaged in M&A state that they believe their businesses are adequately prepared to manage bribery and corruption risk.

“One of the critical components that is missing in M&A is independent due diligence.”

– Violet Ho

Supply chain management post-acquisition.

Once a deal is complete, companies should follow through and ensure the post-deal integration goes smoothly. In fact, 95 percent of 2017 WMEC Honorees include acquisitions as part of their compliance and ethics risk assessments. “Making sure that the acquired company is fully integrated into the rest of the business, both from a process perspective and from a culture perspective, is critical,” says Salmon Byrne. “That applies not just to the acquired company itself, but to that company’s third parties.”

Respondents seem to be aware of this, as those who engaged in M&A are twice as likely to be very concerned or somewhat concerned about their increased exposure to supply chain risk, such as human trafficking, among many other emerging risks.

Risks like human trafficking become compounded when companies are asked to deal with the complexity of fourth and fifth party risk—including through a newly acquired organization. Aida Marcial, Senior Director at Kroll states, “It’s easier to investigate a third party in its pure sense, but many companies are unable to deal with fourth, fifth, and even sixth party issues. You need to put boots on the ground, which is quite expensive, and there are a lot of companies

that would rather put their money elsewhere for immediate issues.” Marcial goes on to explain, “At the end of the day, even though they are reluctant, companies are still responsible for what happens in their far-removed supply chains.”

So how should a compliance officer, especially one who did not have a seat at the table during the pre-acquisition period, handle these issues? “Companies should focus on having a common sense, risk-based approach,” says Braine. “Figure out how your newly acquired company screened its third parties pre-acquisition, and move quickly to incorporate those third parties into your existing program.”

“Companies should focus on having a common sense, risk-based approach.”

— Kevin Braine

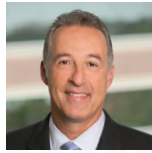
CONCLUSION

While we may live in a time of regulatory uncertainty, the court of public opinion is stronger than ever. A commitment to establishing and supporting strong anti-bribery and corruption efforts is one of the best ways for a company to protect itself against reputational damage. Best-in-class anti-bribery and corruption programs protect not only organizations, but also the integrity of global business.

We hope this Report provides you with the information to better advocate and support the compliance efforts in your company. Kroll and Ethisphere stand ready to help you understand and execute best-in-class anti-bribery and corruption initiatives.

THE EXPERTS

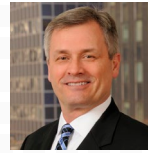
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Based in New York City, John has significant experience across a broad range of compliance-related programs, including anti-money laundering, know your customer, global AML processes, and program and policy formation. John joined Kroll after a distinguished 27-year career with the U.S. Justice Department, Drug Enforcement Administration.

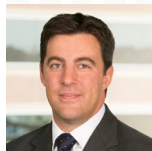
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Kevin is Head of Kroll's Compliance practice in EMEA, based in London. He has extensive experience assisting clients in areas such as pre-transaction due diligence, hostile M&A support activities, third party agent screening, and market and competitor intelligence gathering. He has managed numerous outsourced anti-bribery and anti-corruption programs for a wide range of financial and corporate clients.

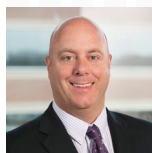
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Violet has over 19 years of professional experience in investigations, and an in-depth understanding of China's business environment. Based in Hong Kong, she has led a wide range of risk consulting projects across Greater China and beyond, ranging from fraud prevention to investigating instances of white collar crime and distribution scams.

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With a background that includes service with the Federal Bureau of Investigations as well as in private law practice and the corporate sector, Bob has more than 25 years of business development and practitioner expertise within compliance and investigations. Based in Los Angeles, Bob has managed hundreds of civil and criminal investigations, including due diligence matters, both domestically and internationally.

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David is Head of Asia Pacific for Kroll's Compliance practice, based in Hong Kong. He helps financial institutions and corporations across the region manage a wide variety of risk and comply with anti-money laundering, anti-bribery, and anti-corruption regulations. David has managed numerous pre-transaction due diligence projects, including reputational due diligence for financial institutions prior to investments or entering into new business relationships.

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Based in Philadelphia, Aida has impressive experience in global investigations, security risk management, labor/supply chain risk management, anti-money laundering, anti-bribery, and anti-corruption compliance. In particular, over the course of a 27-year career, she has been a preeminent authority in human rights matters, specifically, human trafficking, modern slavery, child abuse and exploitation.

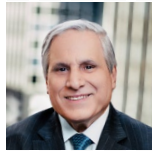
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Zoë co-heads the Financial Investigations team across the EMEA region from her base in London. She has extensive experience leading complex, cross-border forensic investigations into matters of fraud, corruption, and potential regulatory breaches, including those relating to the FCPA and UK Bribery Act. She has particular expertise in advising governments and corporates in emerging and frontier markets.

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Joseph Spinelli,
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Joe is based in New York, and for more than 30 years, he has been a pre-eminent leader in white-collar investigations, anti-bribery and corruption, FCPA, risk management, monitorships, criminal investigations, and forensic accounting. His extensive experience includes service with an international consulting firm, a Big Four accounting firm, and eight years in the groundbreaking role of Inspector General for New York State, where he led fraud and corruption investigations for state government agencies and authorities.

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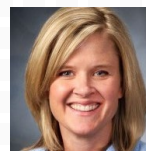
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Douglas is Managing Director of the Ethisphere Institute, where he leads benchmarking, certification, and partnership efforts. Previously, Douglas spent six years with providing compliance- and ethics-related advisory services, including developing compliance and ethics risk assessments, codes of conduct, corporate policies and procedures, and communication and training curriculum plans.

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METHODOLOGY

Kroll and Ethisphere partnered to create the 2017 Anti-Bribery and Corruption Benchmarking Report. Senior Ethisphere analysts and Kroll partners created the survey in October and invited senior-level executives working in ethics, compliance, or anti-corruption worldwide to respond. The survey was open from November 17, 2016 to February 7, 2017.

The survey produced 388 complete and partial responses. Nearly half of respondents (44 percent) represented publicly listed companies; an additional 43 percent represented privately held companies, and 13 percent identified their organizations as a non-profit or other type of organization. The majority of organizations were headquartered in North America (43 percent), followed by the United Kingdom (14 percent), Western Europe (14 percent), Brazil (8 percent), and Australia/New Zealand/Pacific Islands (7 percent).

Thirty percent of respondents held the title of compliance and ethics officer or chief compliance officer, followed by director (17 percent). A wide range of other titles trailed closely behind, all of them related to compliance or anti-corruption activities.

Respondents represented a wide range of industries; the largest industry group was manufacturing, followed closely by finance and insurance (each at 17 percent).

The median worldwide employee headcount of the qualified respondents was 1,000 to 9,999, while the median revenue segment was \$1 billion to \$5 billion.

This was a self-reported survey from Kroll and Ethisphere's audience of ethics and compliance professionals, and Ethisphere did not attempt to verify or audit the data reported by survey-takers.

ABOUT KROLL

Kroll is the leading global provider of risk solutions. For more than 40 years, Kroll has helped clients make confident risk management decisions about people, assets, operations, and security through a wide range of investigations, cyber security, due diligence, and compliance, physical, and operational security and data and information management services. Headquartered in New York with more than 35 offices in 20 countries, Kroll has a multidisciplinary team of nearly 1,000 employees and serves a global clientele of law firms, financial institutions, corporations, non-profit institutions, government agencies, and individuals.



ABOUT ETHISPHERE

The Ethisphere® Institute is the global leader in defining and advancing the standards of ethical business practices that fuel corporate character, marketplace trust and business success. Ethisphere has deep expertise in measuring and defining core ethics standards using data-driven insights that help companies enhance corporate character. Ethisphere honors superior achievement through its World's Most Ethical Companies® recognition program, provides a community of industry experts with the Business Ethics Leadership Alliance (BELA) and showcases trends and best practices in ethics with Ethisphere Magazine. Ethisphere is also the leading provider of independent verification of corporate ethics and compliance programs, including Ethics Inside® Certification and Compliance Leader Verification™. More information about Ethisphere can be found at: <http://www.ethisphere.com>.





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