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ANTI-BRIBERY & CORRUPTION BENCHMARKING REPORT - 2018

**Converging Third Party Risks:
Regulation, Reputation, and
Information**





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FOREWORD

We are pleased to share with you the 2018 Anti-Bribery and Corruption Benchmarking Report (“the ABC Report”), created in partnership by Kroll and Ethisphere.

- This eighth edition of the Report examines the state of anti-bribery and corruption risks that organizations face today and the steps being taken to address these evolving and heightened risks.
- In today’s global, macro-level environment characterized by economic, geopolitical, and cultural shifts, this Report uncovers converging trends in regulation, reputation, and information security and data privacy that have bearing on the work of compliance and ethics professionals. Now more than ever, an effective anti-bribery and corruption program requires a relentless pursuit of facts and a multi-layered understanding of the risks an organization faces.
- We want to thank the 448 respondents from around the world who took the time to answer a range of questions about third party due diligence, stakeholder engagement, merger and acquisition activity, and the challenges they expect to confront going forward.

Some of the findings in this year’s Report will likely confirm your own perceptions, and some may surprise you. In addition to offering you an analysis of the quantitative survey results, you’ll read comments from our experts spanning practice areas and geographic regions. Most importantly, we hope not only to inform you, but to also to provide you with benchmarks, guideposts, and best-in-class approaches that will help you implement a successful ABC program within your organization.



A handwritten signature in cursive script that reads "Steven J. Bock".



A handwritten signature in cursive script that reads "Erica Salmon Byrne".

Steven J. Bock & Erica Salmon Byrne

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.

EXECUTIVE SUMMARY

In today's global, hyper-connected economy, we find anti-bribery and corruption programs in the midst of an evolution that is driven by converging organizational risks and priorities. Regulatory mandates, critical reputational factors, and data security issues are increasingly intertwined as compliance teams strive to protect their organizations from ABC risks.

The common thread running through all these risks is the high volume of direct and indirect third parties that partner with and supply services to organizations. Forty-five percent of respondents work with at least 1,000 third parties per year, a six percentage point increase over the 2017 Report.

Individually, regulatory, reputational, and data security risks are persistent challenges that compliance and ethics professionals know very well. The convergence of these risks is driving greater collaboration between the organization's compliance and information security teams, which can make for stronger, more compliant anti-bribery and corruption programs. Leadership engagement, always a key and essential contributor to program effectiveness, is especially critical for ensuring enterprise-wide support for compliance efforts.

Doing business ethically and maintaining an up-to-date anti-bribery and corruption program is not just about avoiding the pitfalls of reputational or legal risk. Investors are finding that a focus on ethical business dealings can translate into rewarding financial outcomes. By way of example, the publicly traded companies among Ethisphere's 2018 World's Most Ethical Companies® ("Honorees") outperformed U.S. Large Cap Indices by 4.88 percent over the last three years, demonstrating that ethics and performance are well-suited companions and valued in the marketplace.

Despite the increased focus and engagement of organizational resources on compliance efforts, a staggering 93 percent of respondents believe their ABC risks will remain the same or worsen in 2018. Those who expect greater ABC risks attribute the rise to increased enforcement of existing regulations, followed closely by new regulations. Given these expanding regulatory pressures, a holistic, multidisciplinary approach may hold the key to sustainable improvements in the future.

Some key findings from our study include:

ABC PROGRAMS: ONGOING CHALLENGES

Overall, the results of this year's survey were consistent with those in our last report; namely, that third party risks—particularly reputational issues—were of greatest concern to respondents. In a shift from last year, however, respondents singled out increased enforcement of existing regulations along with the prospect of new regulations as the top reasons why they expect their anti-bribery and corruption risks to grow in 2018.

A significant percentage of respondents continue to worry that they are not prepared to address the risks that their third parties present. Indeed, 58 percent of respondents uncovered legal, ethical, or compliance issues with a third party after initial due diligence. Most often, organizations' due diligence practices—such as ongoing and active monitoring—are responsible for bringing these issues to light. However, in a growing number of cases, third parties are self-disclosing infractions, a clear reflection of changing cultural and regulatory trends, including heightened concerns over personal liability. Risk-based segmentation, ongoing monitoring that incorporates regular data refresh, and periodic program evaluations have emerged as best-practice features of effective anti-bribery and corruption programs.

OWNERSHIP STRUCTURE RISKS ON THE RISE

The most notable year-over-year change in survey responses was the increased concern over opaque ownership structures, which rose this year to become the third most common reason why third parties are failing to meet an organization's standards. However, current mitigation efforts have not translated into confidence for compliance teams: less than a quarter of respondents reported that they are very comfortable with their ability to effectively address the risks associated with beneficial ownership.

A global expansion of regulatory mandates that demand attention to ownership is driving much of the greater focus on the matter. Broader societal expectations, however, are also playing a critical role; the potential for significant, long-lasting reputational damage has made the effort to track ownership an imperative.

ABC AFTER ONBOARDING: ONGOING MONITORING AND DATA REFRESH

In the fast-changing global marketplace, organizations cannot expect that a third party's risk profile and/or ownership will remain static after initial onboarding due diligence. In fact, regulatory guidance has made ongoing monitoring an expectation for an effective and engaged anti-bribery and corruption program. However, there is no clear mandate as to what monitoring should entail or how often it should be done.

To be expected—and consistent with prior data—respondents reported a number of different approaches to monitoring. This year, however, we introduced the topic of third party data refresh into our survey and found many organizations using the practice to one degree or another. Refreshing baseline information on their third-party universe can help ensure organizations are conducting diligence or other monitoring practices corresponding with the actual risk presented by their third parties. With anti-bribery and corruption programs increasingly driven by technology, data integrity is a growing factor in risk mitigation and defense.

MERGERS AND ACQUISITIONS

Virtually the same percentage of respondents reported their organizations had engaged in M&A activity in 2017 as did in the prior year (62 percent and 67 percent, respectively). However, M&A continues to challenge compliance professionals from an anti-bribery and corruption perspective. The data shows that respondents are still not consistently meeting regulatory guidance, which expects organizations to thoroughly understand who they are acquiring. Similar to last year, respondents report collecting less information on the third parties of their transaction targets than on direct third parties.

In a more positive development, Kroll experts have noted that some organizations, particularly those looking to be acquired, are turning this exercise into a competitive advantage. “Clean-up” work on their own third-party universe or supply chains can help make target companies more attractive to buyers and accelerate the transaction process.

NEW RESOURCES EMERGE AS ABC AND ENTERPRISE RISKS CONVERGE

A convergence of risk factors—specifically regulatory, reputational, and data security—is driving home the realization that greater collaboration and support from resources across the enterprise can help anti-bribery and corruption programs better mitigate risks.

Increasingly stringent data privacy laws—including the imminent adoption of the European Union's General Data Protection Regulation (GDPR)—are making information-gathering on third parties a minefield. Across all survey respondents, 85 percent described themselves as somewhat or very concerned about data security risks. Meanwhile, mobile technology and applications such as WhatsApp and WeChat are creating internal vulnerabilities. Growing collaboration between compliance and information security/technology teams is proving instrumental in making due diligence efforts compliant and comprehensive.

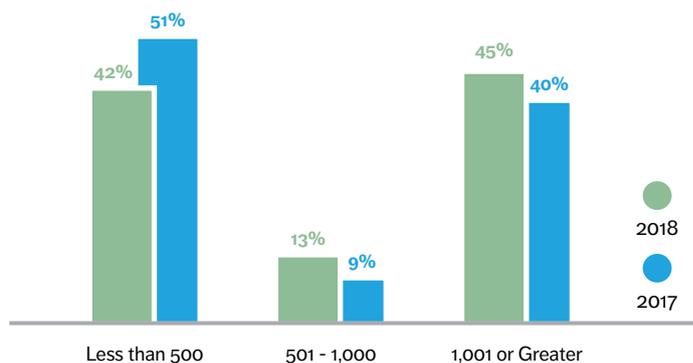
Overall, ABC programs are receiving greater investments from their organizations; however, nearly half of this year's respondents (47 percent) feel they need more resources. Measuring the effectiveness of programs can be the key to ensuring appropriate funding levels. Indeed, the survey data shows a link between program measurement and high levels of leadership engagement, which plays a critical role in anti-bribery and corruption program effectiveness. Beyond regulatory compliance, leaders are aiming to safeguard brands and organizational reputations.

SECTION ONE

ABC PROGRAMS: ONGOING CHALLENGES

Though some new trends emerged in the 2018 survey data, many perennial worries continue to preoccupy compliance officers and those in charge of anti-bribery and corruption programs. As in previous years, growing numbers of third parties and the myriad risks they pose, including reputational concerns, still play a major role in shaping the priorities of anti-bribery and corruption programs. The challenges of meeting regulatory guidelines, however, have become even more acute. Indeed, increased enforcement of existing regulations is the number-one reason that respondents expect their ABC risk to increase in 2018.

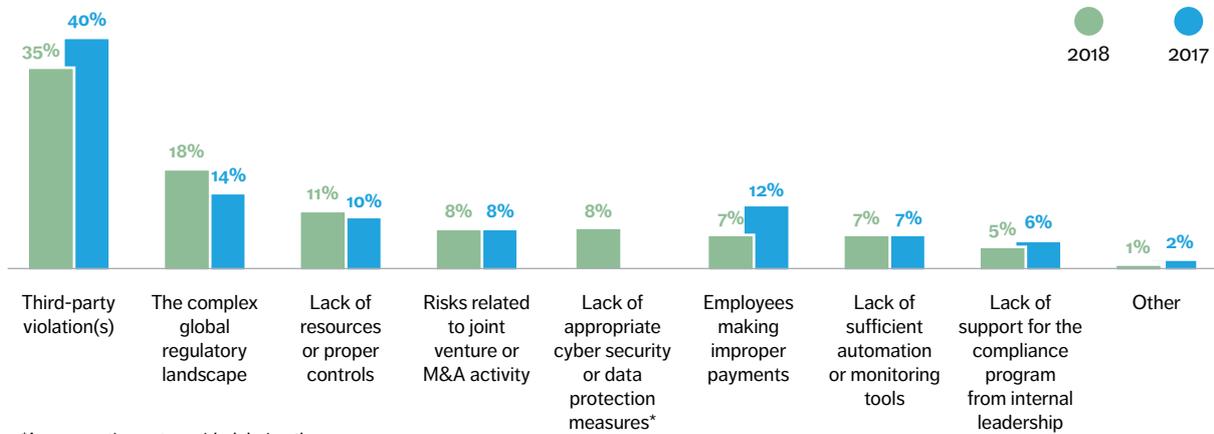
Q: How many third parties do you do business with in a given year? For the purposes of this questionnaire, “third party” refers to any person or entity you partner with in order to do business. Please do not include customers.



THIRD PARTIES REMAIN A MAJOR AREA OF CONCERN.

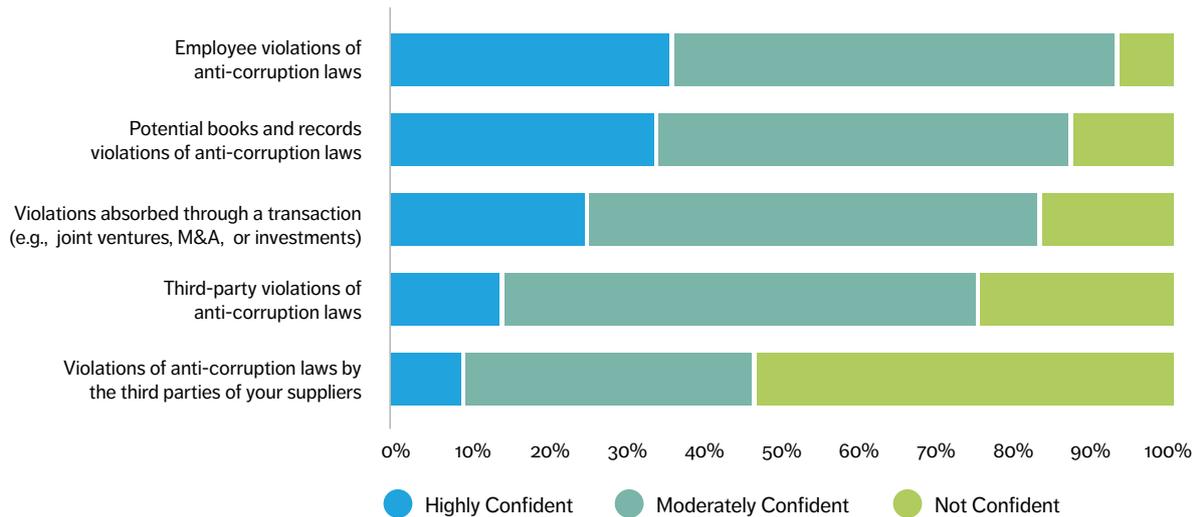
For the second year in a row, third-party violations top the list of perceived risks to an organization's anti-bribery and corruption program, representing 35 percent of responses. Notably, almost a quarter of respondents report that they do not feel confident in their organization's ability to catch third-party violations of anti-bribery and corruption laws. The extent of the problem becomes apparent when one considers that 45 percent of respondents work with at least 1,000 third parties per year, a six percentage point increase over 2017. Indeed, 58 percent of respondents reported that they uncovered third-party violations of anti-bribery and corruption laws after the completion of their initial due diligence.

Q: What do you perceive to be the top risk to your anti-bribery and corruption program in 2018?

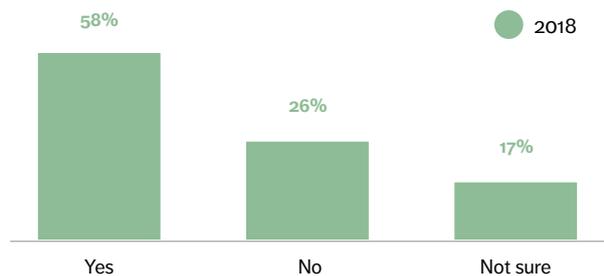


*Answer option not provided during the 2017 survey

Q: How confident are you in your organization's ability to catch each of the following types of anti-corruption violations?



Q: Have you experienced an occasion when legal, ethical, or compliance issues with a third party were identified after due diligence had been conducted?



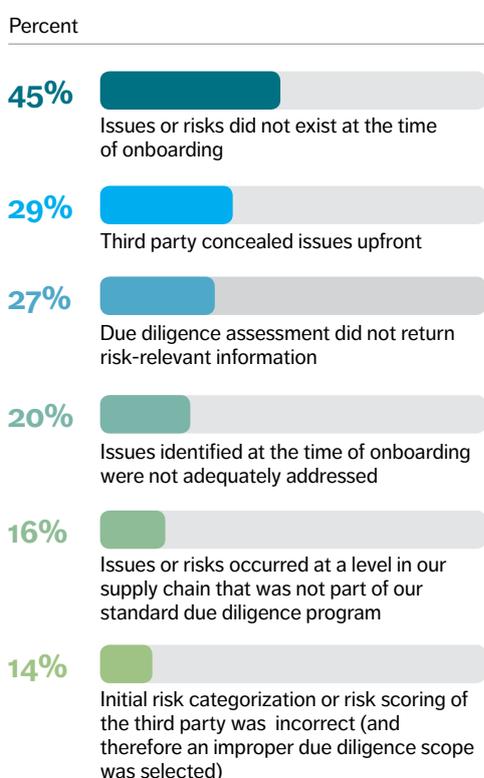
When we examine the root causes of post-onboarding issues, clear trends emerge. The most common response (45 percent) was that the violation did not exist at the time of due diligence. The second most common (29 percent) was that the third party concealed these issues upfront (although this number is troubling, it represents a slight decrease from 31 percent in 2017). Combined, these issues highlight the fact that third-party risks can arise at any point in the relationship.

REGULATORY FOCUS ON INDIVIDUAL ACCOUNTABILITY HEIGHTENS PERSONAL LIABILITY CONCERNS, DRIVES MORE SELF-DISCLOSURE.

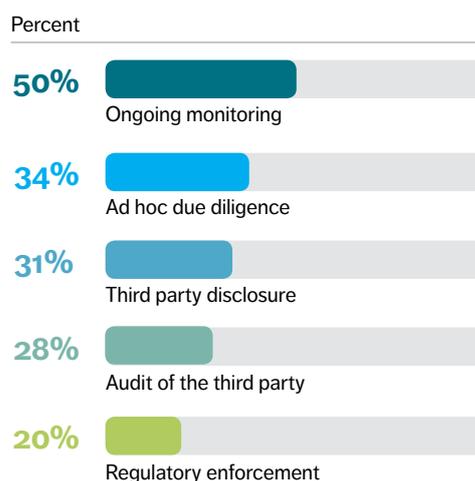
Nearly 50 percent of respondents who reported post-onboarding issues with a third party indicated that the issues were discovered through ongoing monitoring. Additionally, 31 percent of respondents said that third-party disclosure brought the issue(s) to light, as compared to 18 percent in 2017. This is a striking increase in just one year. **John Arvanitis**, Associate Managing Director, Compliance North America at Kroll, attributes this trend partly to “the culture that’s emerging and being supported by C-Suite executives”—i.e., one that encourages organizations to be transparent, forthcoming, and ethical.

However, there may be another, more pragmatic reason for this significant increase in self-disclosure. Increased enforcement of existing regulations is the number-one reason that respondents expect their anti-bribery and corruption risk to increase in 2018, followed closely by new regulations. In the United States, the “Yates Memo” and the FCPA Pilot Program set firm expectations of the penalties organizations can expect for FCPA violations and the importance of identifying the individuals responsible for corrupt actions. Likewise, France’s Sapin II, China’s ongoing corruption crackdown, and other evolving regulatory actions set similar expectations.

Q: Why do you think this issue occurred? Please select all that apply.



Q: You indicated that you experienced an occasion when legal, ethical, or compliance issues with a third party were identified after due diligence had been conducted. How did the issue(s) come to light? Please select all that apply.



65%

Percentage of respondents who indicated their level of concern with personal liability was about the same compared with the previous year; 22 percent were more concerned.

Kevin Braine, Managing Director, Head of EMEA Compliance at Kroll, explains, “European and UK regulators have made it clear that, in line with the tone and intent of the ‘Yates Memo’, regulators intend to focus more on individual liability.” Not surprisingly, when asked to gauge their level of concern with personal liability compared to the previous year, 65 percent of respondents indicated their level of concern was about the same, while 22 percent were more concerned.

In light of this trend, self-disclosure is in a third party’s best interest. As Arvanitis points out, “The days of shocking companies into compliance through large fines are gone. Now, regulators are looking to set an example of organizations by holding the people who facilitated the conduct and the decision-makers who directed it accountable.” Organizations know that they must be prepared to face these new standards not only when it comes to their own employees’ conduct, but also that of their third parties. Encouraging self-disclosure is one way to help mitigate consequences for the organization as a whole.

RISK SEGMENTATION IS KEY.

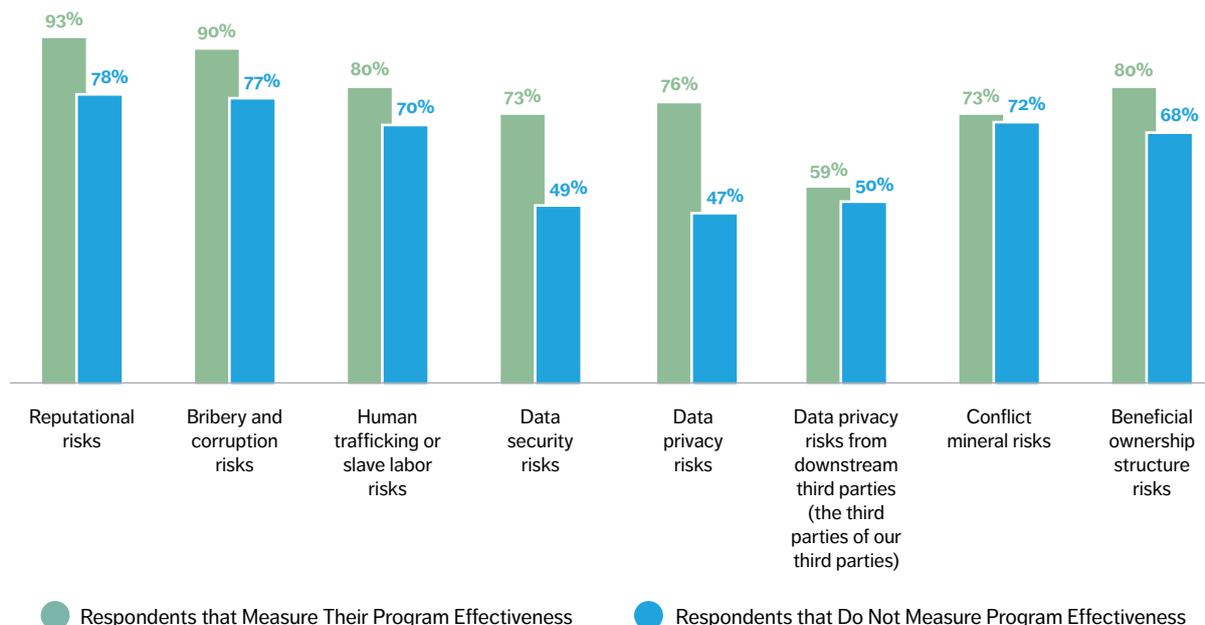
Considering the number of third parties that respondents engage with, a risk-based approach to due diligence and ongoing monitoring is key; without it, compliance teams can be overwhelmed by both information and cost. **Peter Turecek**, Senior Managing Director, Investigations and Disputes, North America at Kroll, advises organizations to assign third parties to high, medium, and low categories of risk based on predetermined criteria that take into account a number of factors specific to the organization, such as its industry sector, the nature and criticality of the relationship, etc. In this way, compliance teams can conduct increasing levels of due diligence as necessary. Turecek cautions that “more opaque jurisdictions may require engaging in-country experts or resources who understand the socio-political nuances and are proficient in working within the local legal framework as it relates to information gathering.”

Survey data shows that improper risk categorization—placing a third party that should be considered high risk instead into a lower risk category—can have serious consequences. Fourteen percent of respondents who uncovered bribery and corruption violations after due diligence attributed them to improper risk ranking. But the data also shows that respondents whose compliance and ethics programs were regularly measured were much less likely to mis-categorize third parties’ risk levels, showing that evaluation is key to an effective program (as reported by 11 percent of respondents that regularly measure program effectiveness compared to 23 percent of respondents that do not).

Fourteen percent of respondents who uncovered bribery and corruption violations after due diligence attributed them to improper risk ranking.

14%

Q: Respondents either “Very Confident” or “Somewhat Confident” in their program’s ability to address the following risks



Though the nature of anti-bribery and corruption violations and the methods of uncovering them may change, the fact remains that nothing can take the place of an effective anti-bribery and corruption program with thorough onboarding due diligence, ongoing monitoring, up-to-date training, usable policies, and a frequent evaluation schedule.

ABC PROGRAMS MUST CONTINUALLY EVOLVE TO MAINTAIN THEIR EFFECTIVENESS.

In this changing business landscape, it’s understandable that few respondents foresee a decrease in their anti-bribery and corruption risk. Sixty-five percent of respondents think that their risk will stay the same in 2018, and 28 percent think it will increase.

Beyond that, the survey data indicated one key way that organizations can further reduce their perceived risk: measuring their program’s effectiveness. [Erica Salmon Byrne](#), EVP at Ethisphere, remarked that “a robust review of an anti-bribery and corruption program against peer organizations is the most efficient way to ensure your program continues to mitigate risk, so it is no surprise those organizations that do so periodically feel more prepared to handle this significant risk area. Among the Honorees, it is common to benchmark the anti-bribery and corruption program specifically, with 77 percent of 2018 Honorees opting to do so.”

Sixty-five percent of respondents think that their risk will stay the same in 2018, and 28 percent think it will increase.

65%

SECTION TWO

OWNERSHIP STRUCTURE RISKS ON THE RISE

Following last year's stunning rise to the top, general reputational or integrity concerns continued as the number-one reason why a third party fails to meet an organization's standards. In a similar, albeit less dramatic, way, this year's data shows another risk fast becoming a major priority for compliance teams: ownership structure. In fact, opaque or suspect corporate structure has become the third most common reason a third party would fail to meet an organization's standards, up from the fifth most common in the 2017 Report.

Q: Rank the following reasons that potential third parties fail to meet your standards based on how frequently they occur.

Reason	2018 Overall Rank	2017 Overall Rank
General reputational or integrity concerns	1	1
Conflicts of interest	2	2
Opaque or suspect corporate structures	3	5
Questionable relationships with politically exposed persons	4	3
Unusual contract and payment structures	5	4
Clear-cut evidence of bribes in previous business dealings	6	6
Known dealings with sanctioned entities	7	7

LOW CONFIDENCE IN ABILITY TO ADDRESS OWNERSHIP RISKS DESPITE INCREASED FOCUS AND CONTROLS.

Although a majority of respondents are collecting ownership information on various relationships, many do not feel confident that they actually know who are the ultimate owners or controlling bodies of their third parties and transaction targets. Well over half of respondents reported that they were concerned or very concerned with beneficial ownership risks associated with their third parties. More troubling yet, less than a quarter of respondents are very comfortable with the mechanisms they have in place to address these risks.

This lack of confidence underscores how determining ownership is a complex issue that resists one-dimensional efforts. For example, these feelings exist despite the fact that a majority of respondents—84 percent—are collecting ownership information as part of a due diligence process on their third parties. Likewise, of those who engaged in mergers and acquisition-related activity in 2017, 72 percent collected ownership information on transaction targets. However, only a mere 34 percent collected it on the third parties of those entities they were considering acquiring, no doubt contributing to respondents' insecurity regarding ownership knowledge.

Looking to the future, emerging developments such as new forms of payment, e.g., open-banking and cryptocurrencies, will make ownership waters even murkier to navigate.

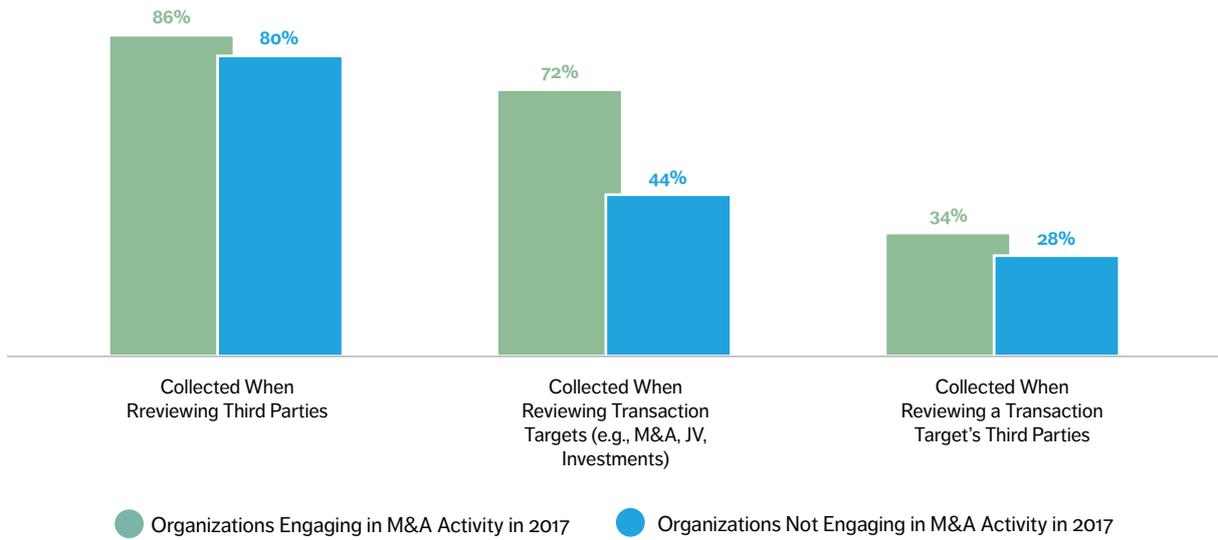
Arvanitis notes, "I think that what we are seeing here is that everyone has a very good understanding of what the beneficial ownership requirements call for, but the question is, how do companies confidently meet those requirements? How do they actually make sure that company X is or isn't truly controlled by persons Y, Z, and A? Compliance teams are increasingly recognizing that the collection of information is not enough; rather, it must be enhanced with a certain amount of analysis or context if they are to more fully understand the potential risks hidden within opaque ownership structures."

REGULATORY AND REPUTATIONAL RISKS DRIVING GREATER FOCUS ON DETERMINING OWNERSHIP.

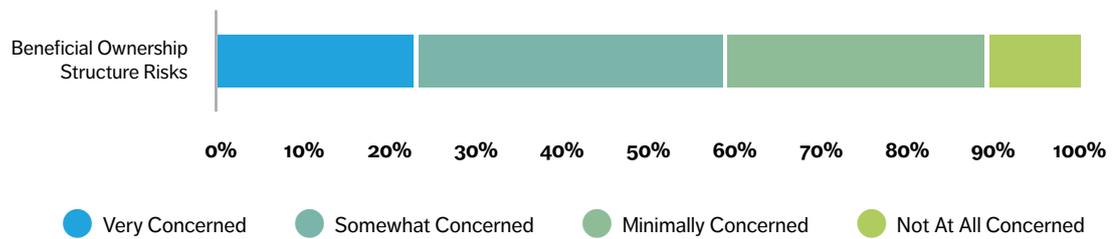
So why the intensifying focus on ownership structure? Certainly, one of the main drivers has been the increase in regulatory scrutiny and mandates. **David Liu**, Managing Director, Head of APAC Compliance at Kroll, says that beneficial ownership has become more of a concern across Asia in recent years from the continued impact of 1MDB (Malaysia's state development fund) to Xi Jinping's continued anti-corruption campaign. Liu further explains that changes made recently by the China Banking Regulatory Commission (CBRC) limiting any individual investor who owns more than 5% (considered a major shareholding) to no more than two commercial banks, or a controlling stake of no more than one lender as well as large Chinese conglomerates being under scrutiny, have made this issue more exposed, but it has always been a challenge. Ultimate beneficial ownership will continue to be a concern for all involved from governments, firms being considered for investments by foreign companies, as well as firms looking to invest in foreign companies." Given the significant role that Chinese organizations play in the global economy, these issues related to beneficial ownership are having an effect around the world. Likewise, regulations such as the U.S. Financial Crimes Enforcement Network's (FinCEN) Final Rule regarding customer due diligence, the UK's Information about People with Significant Control (PSC) Amendment Regulations 2017, Spain's Law 10/2010 on the Prevention of Money Laundering, the 2016 updates to the Danish Companies Act, China's recent State Administration of Taxation Announcement No. 9, and recent reform in Singapore and Hong Kong are demanding attention to ownership.

Broader societal attention is also playing a role. "It is no longer considered acceptable by the general public that companies can claim they don't know who the owners or controlling entities of counterparties are," states Braine. "It can remain incredibly difficult to get to the bottom of beneficial ownership of a particular company, but pressure from the public and NGOs and the significant reputational damage to companies that end up involved—perhaps unwittingly—with individuals who are problematic makes it well worth the time to track ownership through different layers of shell companies and holding companies."

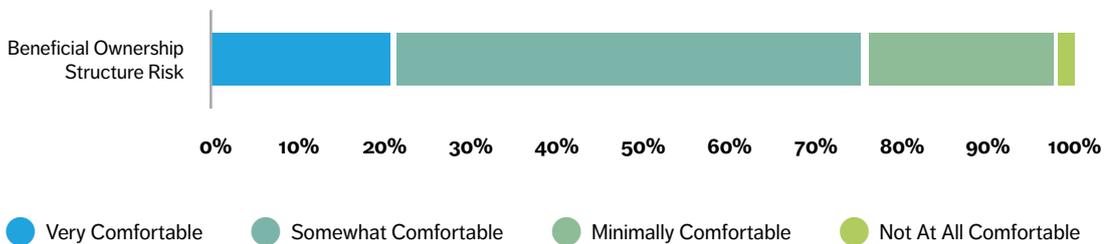
Q: When do you collect ownership information (independently or with an outside vendor) as part of your due diligence process?



Q: How concerned are you with potential beneficial ownership structure risks associated with your third parties?



Q: How confident do you feel in your program's ability to address risks associated with beneficial ownership structure?



SECTION THREE

ABC AFTER ONBOARDING: MONITORING AND DATA REFRESH

Though proper onboarding helps mitigate risk, organizations must continue to monitor their third parties to help ensure business practices remain in line with expectations. It's not enough to trust that a third party's risk profile and ownership will remain static after a relationship has been established. Of the respondents who cited post-onboarding issues with a third party, nearly 50 percent indicated that the issues or risks did not exist at the time of onboarding and 28 percent indicated that the third party concealed the issue at the time of onboarding. While this clearly demonstrates the need for ongoing monitoring, going one step further, experts suggest that a periodic refresh of third-party data is key to maintaining the effectiveness of that program.

Q: Why do you think you experienced legal, ethical, or compliance issues with a third party after due diligence had been conducted?



As Braine explains, “There is a huge gap in monitoring third parties on an ongoing basis as well as making sure that the risk profile of the third party that you are monitoring has not fundamentally changed from what it was at the start of the relationship.” Closing this gap is key to identifying and addressing anti-bribery and corruption risk.

REGULATORS HAVE MADE ONGOING MONITORING A BASELINE EXPECTATION.

Fully 75 percent of survey respondents monitor some or all of their third parties, which reflects the growing understanding that ongoing monitoring is expected. As Braine explains, “[Ongoing monitoring] is not optional. If you look at guidance provided by French regulators, the UK Bribery Act, which calls for ‘continued and regular monitoring,’¹ or the FCPA, ongoing monitoring is very much a requirement.”

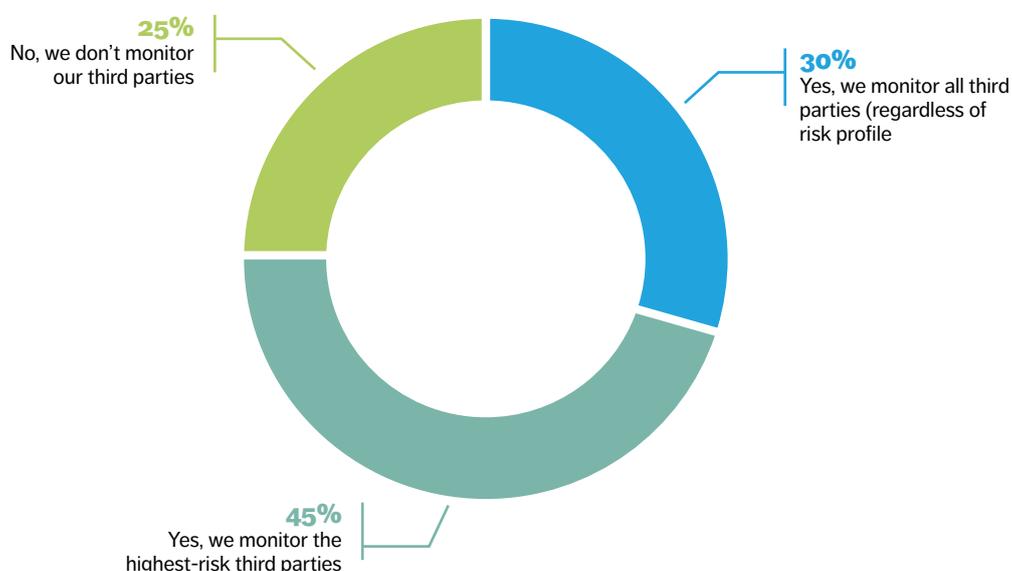
Braine points out, “By monitoring third parties, you’re likely to find a supplier that was historically fine to deal with has become unpalatable.” He gives a hypothetical example that shows the importance of monitoring: “A lot of companies are waking up to find that the paper mill they were dealing with for the last 25 years has changed ownership, changed countries, which might make them higher risk than the checks that were initially performed on them. If, for example, your European paper mill opens operations in a high-risk jurisdiction and is controlled by sanctioned individuals, that could be a risk—and you won’t pick it up.”

In a rapidly changing business climate, when supply chains are expanding every day, it’s no longer enough to simply perform initial due diligence and leave it at that. However, while organizations may largely understand that monitoring is important, there is less consensus—and less regulatory guidance—about the right way to go about it.

MONITORING CAN MEAN DIFFERENT THINGS TO DIFFERENT ORGANIZATIONS.

While nearly 75 percent of respondents indicated that their organization engages in some form of ongoing monitoring of third parties, the approach varies from one organization to another. Survey data shows that 30 percent of respondents monitor all third parties regardless of risk profile, and 45 percent only monitor their highest risk third parties. **Steven Bock**, Global Head of Operations, Kroll’s Compliance practice, adds, “Then there is the question of frequency, for which there is no regulatory answer. Compliance areas are being pressed to be more efficient, be more cost effective, without compromising the quality of their due diligence efforts and ongoing monitoring efforts. The way we’re helping clients achieve this balance is to bring more technology to their program to help them find the optimal answer.” With technology solutions, organizations can automate, scale, and centralize some of the most important aspects of managing third-party relationships.

Q: Does your company engage in ongoing monitoring of third parties to ensure compliance with ethical and legal standards?

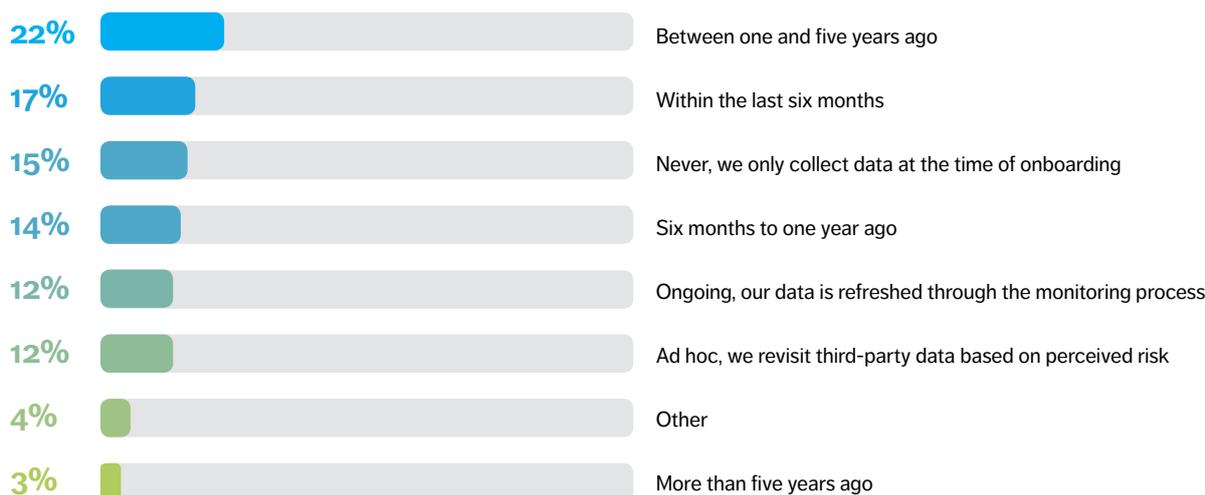


¹ <https://www.justice.gov.uk/downloads/legislation/bribery-act-2010-guidance.pdf>

DATA REFRESH IS INCREASINGLY A FACTOR IN RISK MITIGATION AND DEFENSE.

A varied approach also exists for third-party data refresh practices. Fifty-six percent of respondents whose organizations conduct monitoring opt to refresh third-party data, but just as there is no regulatory guidance for how frequently to conduct monitoring, the question of how often to perform this refresh remains difficult to answer. Seventeen percent of respondents have refreshed their third-party data in the last six months, 14 percent within six months to a year, and 22 percent refreshed their data one to five years ago. Only 15 percent of respondents opt not to refresh data about their third parties at all. Among the Honorees, 73 percent refresh their data upon contract renewal, and 56 percent perform a refresh periodically—at least every three years.

Q: When is the last time you conducted a complete refresh of your third-party universe? A refresh could include re-running third-party questionnaires and/or refreshing third-party data and due diligence that would normally be part of the onboarding process.

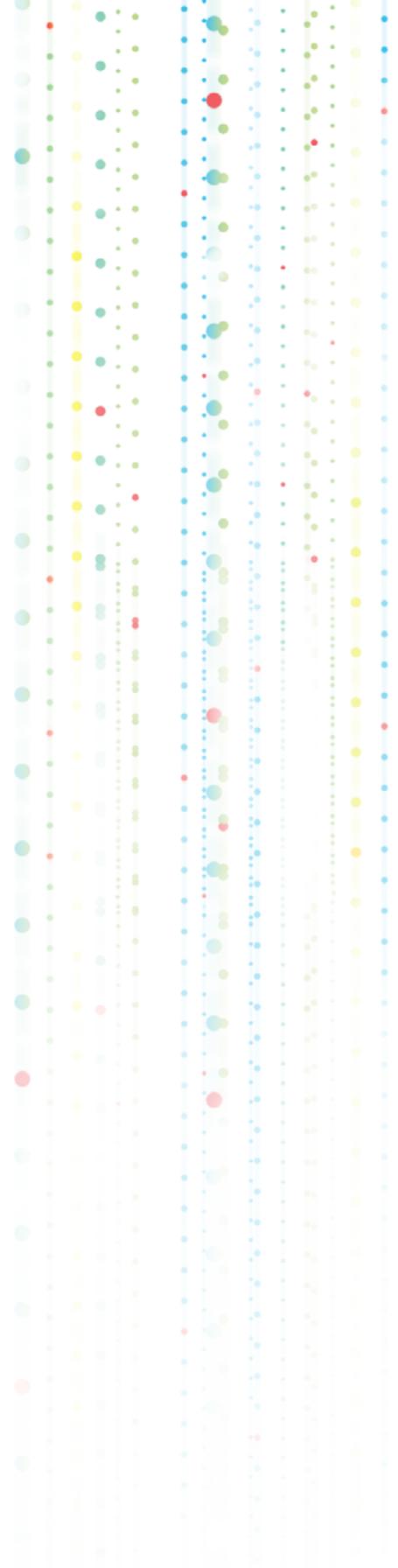


SECTION FOUR

MERGERS AND ACQUISITIONS

A majority of survey respondents (62 percent) indicated they engaged in M&A activity in 2017. Yet the data continues to show that respondents are not conducting the levels of pre-acquisition due diligence we would expect—particularly in light of applicable regulatory guidance that places responsibility for third parties' actions on the shoulders of the acquiring entity.

Respondents indicated 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.



REGULATORY EXPECTATIONS ARE NOT BEING CONSISTENTLY MET.

Regulatory guidance expects organizations to thoroughly understand who they are acquiring. However, respondents continue to indicate that they do not conduct the same level of data collection for the third parties of transaction targets as they do for their organization's own third parties—in some cases, substantially less. Similarly, as noted previously in "Ownership Structure Risks on the Rise," respondents indicated 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 M&A.

According to Braine, this is an area of opportunity for organizations—both those acquiring and those looking to be acquired. "While this type of work used to be done post-acquisition for efficiencies, more work is being done on an acquisition target's supply chain to make sure you are not acquiring supply chain bribery risks due to lack of controls. We are seeing a lot of companies doing clean-up exercises now to prepare for potential acquisition, especially as M&A levels continue to remain very high."

Q: What information do you currently collect (independently or with an outside vendor) as part of your due diligence process?

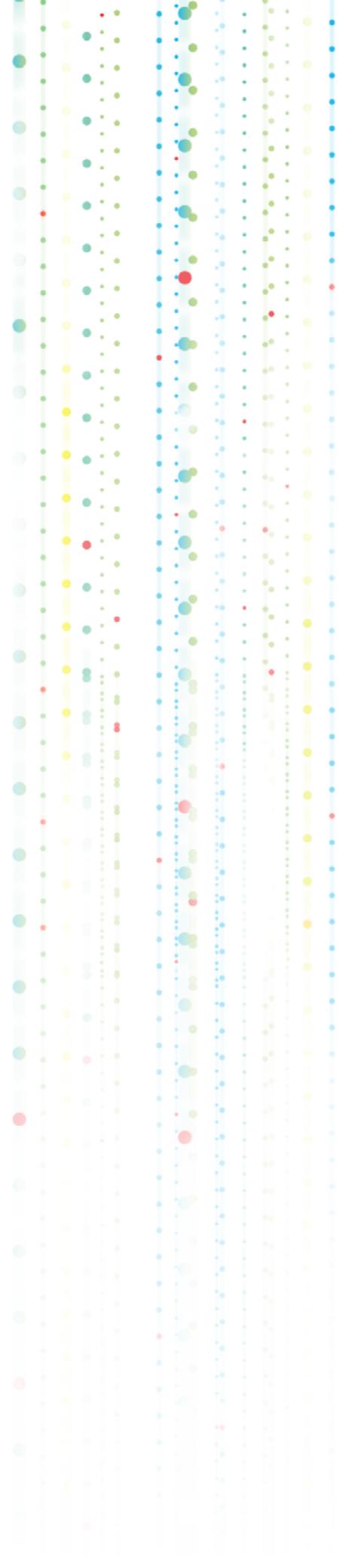
	When Reviewing Third Parties	When Reviewing Transaction Targets (e.g., M&A, JVs, Investments)	When Reviewing Transaction Target's Third Parties
Ownership Information	86%	72%	34%
Policy Documentation	61%	73%	23%
Employee Training Program	50%	71%	19%
Ethics and Compliance and Litigation Record	71%	74%	26%
Political Exposure and/or State Ownership Control	81%	71%	30%
Human Rights and Labor Conditions	52%	73%	23%
Data Security Information	55%	76%	23%
Data Privacy Information	56%	75%	24%
Data Privacy Information From Downstream Third Parties (The Third Parties of Our Third Parties)	48%	69%	30%

SECTION FIVE

NEW RESOURCES EMERGE AS ABC AND ENTERPRISE RISKS CONVERGE

[Kroll's Global Fraud and Risk Report 2017/2018](#)

highlighted how the convergence of a global economy, complex digital connections, and perennial human factors has crystallized the need for enterprise-wide approaches to address risks. Indeed, compliance teams are finding that greater collaboration and support from resources across the organization can help anti-bribery and corruption programs address a host of current and emerging risks.



INFORMATION SECURITY CHALLENGES AND OPPORTUNITIES.

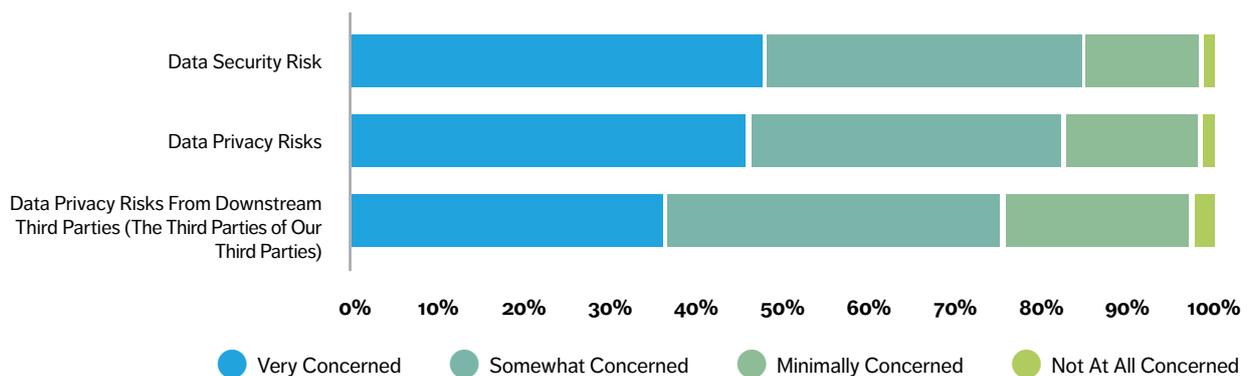
Today, virtually every area of an enterprise intersects with information security, and the compliance function is no exception. While data security and privacy protection are not new concerns, compliance teams must increasingly address these issues in how they collect, process, share, and store information related to their due diligence efforts. Certainly, the imminent adoption of the GDPR, with its punitive fine structure, raises the stakes. In this kind of risk climate, information security colleagues can be an invaluable resource for compliance teams, and vice versa, in ensuring the organization is compliant with ever more stringent regulations.

Across all survey respondents, 85 percent described themselves as somewhat or very concerned about data security risks—and only two percent said that they are not at all concerned. Similarly, 82 percent of respondents are very or somewhat concerned about data privacy.

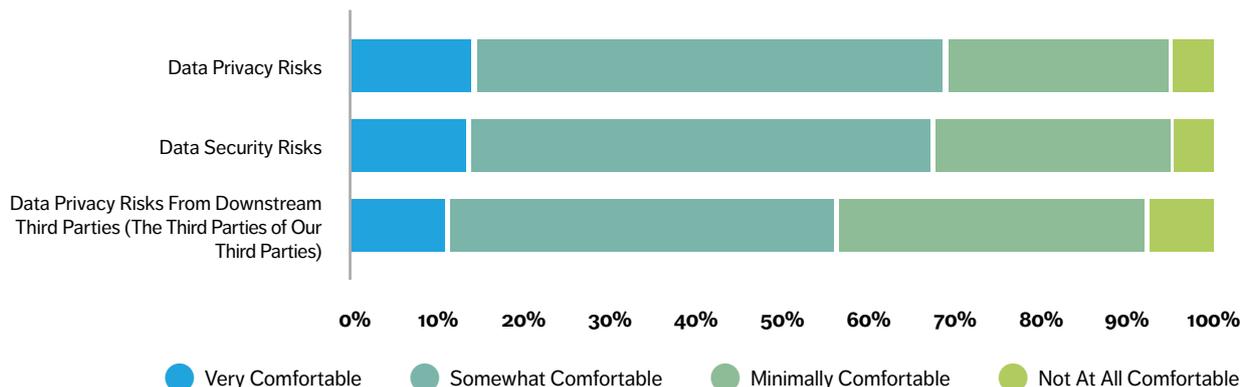
However, this widespread concern does not always correspond to being prepared to address data security risks. Only about two-thirds of respondents said that they are very or somewhat prepared to respond to data security and data privacy risks. Likewise, 76 percent of respondents said they are concerned about data security risks related to third parties of their third parties—and only 56 percent feel prepared to address them. This represents a major area of potential vulnerability; as the interests of cyber security, data privacy, and compliance converge, there is a new imperative for internal collaboration.

To that point, **Paul Jackson**, Managing Director and APAC Leader for Kroll's Cyber Security and Investigations at Kroll, has noticed a growing collaboration between compliance and information security functions. Jackson notes, "We see examples of organizations formulating cyber onboarding requirements similar to those of conventional anti-bribery and corruption programs. Some compliance departments are even partnering with their internal technology teams to develop creative solutions to address the use of mobile technology like WhatsApp or WeChat and the vulnerabilities that they may pose."

Q: How concerned are you with the following potential risks associated with your third parties?



Q: How confident do you feel in your program's ability to address the following risks?



With high-profile instances of cyber security breaches constantly in the news, Jackson points to a prime example of new cross-department collaboration: “We are seeing a greater number of requests to conduct exercises such as vulnerability or penetration testing as part of third-party onboarding. This can be much more effective than just taking their word.” This proactive practice, which relies on their information technology department for success, may help organizations feel more comfortable with the cyber risks their third parties present.

ABC PROGRAMS GETTING GREATER INVESTMENT, BUT SHORTFALLS STILL EXIST.

Thirty-six percent of respondents indicated that their organization dedicated more resources to anti-bribery and corruption issues in 2017 than in 2016. Fifty-six percent indicated the same level of dedicated resources, while only two percent cited less resources being dedicated to anti-bribery and corruption issues. This is not surprising, given a number of factors: the high volumes of third parties that organizations are conducting business with, increased perceived risk, and continuing advancement in onboarding due diligence and ongoing monitoring. There is still a near even split, however, between respondents who feel they have enough resources to support their organization’s anti-bribery and corruption efforts (53 percent) and those who feel they need more (47 percent). What this year’s findings don’t reveal is whether the first group is underestimating risks or whether the second group’s organizations have not prioritized anti-bribery and corruption efforts. This is where measuring the effectiveness of programs can be especially enlightening for determining effective investment levels.

EXECUTIVE LEADERSHIP SUPPORT IS CRITICAL FOR AN EFFECTIVE ABC PROGRAM.

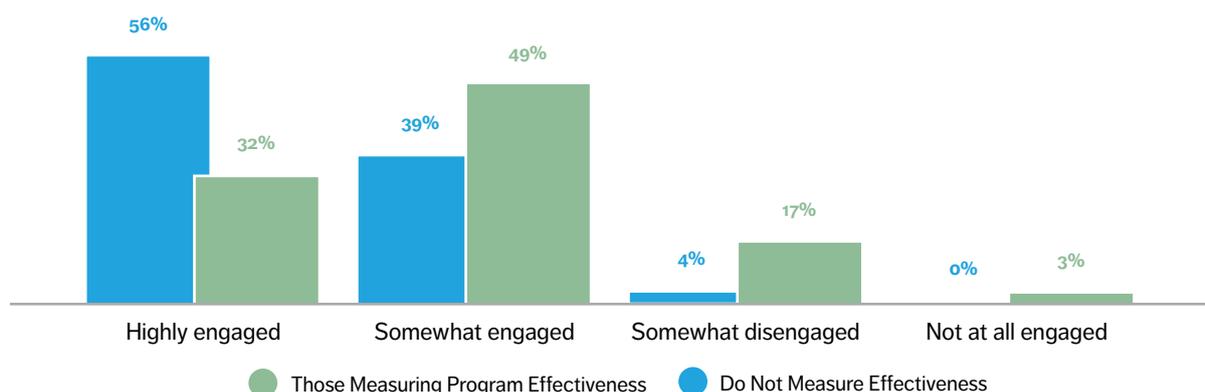
Leadership teams across industries are understanding the value of a strong anti-bribery and corruption program as a tool to protect an organization, legally and reputationally. Ninety-two percent of all survey respondents said that their leadership team is highly engaged or somewhat engaged in their anti-bribery and corruption efforts, as opposed to 89 percent in the 2017 Report. This slow but steady increase represents a positive trend.

Leadership support is critical for ensuring coordination and commitment across an organization, which can be the difference between a siloed “paper program” and a robust, cohesive, organization-wide effort.

In a related note, the survey data does show a link between high levels of leadership engagement and program measurement. Organizations that measure their programs regularly are more likely to report a high level of leadership engagement—56 percent said that their leadership team is highly engaged, as compared to only 32 percent of respondents that do not measure their programs.

This level of attention by leaders signals that the C-suite is coming to understand—and make a priority of—addressing the compliance-related risks that can profoundly affect the organization’s legal, financial, and reputational standing. Salmon Byrne points out, “Executive leadership teams know that an instance of bribery or corruption can have significant reputational implications for their organizations, and they want to be well grounded in the steps that the compliance team and others are taking to address the risk. Equally importantly, they want to know how they can support and contribute to the effort.” We are witnessing a sea change, in that most leaders are no longer looking at anti-bribery and corruption programs solely through the lens of regulatory enforcement. Instead, their vision of compliance has expanded to new horizons: safeguarding brands and organizational reputations.

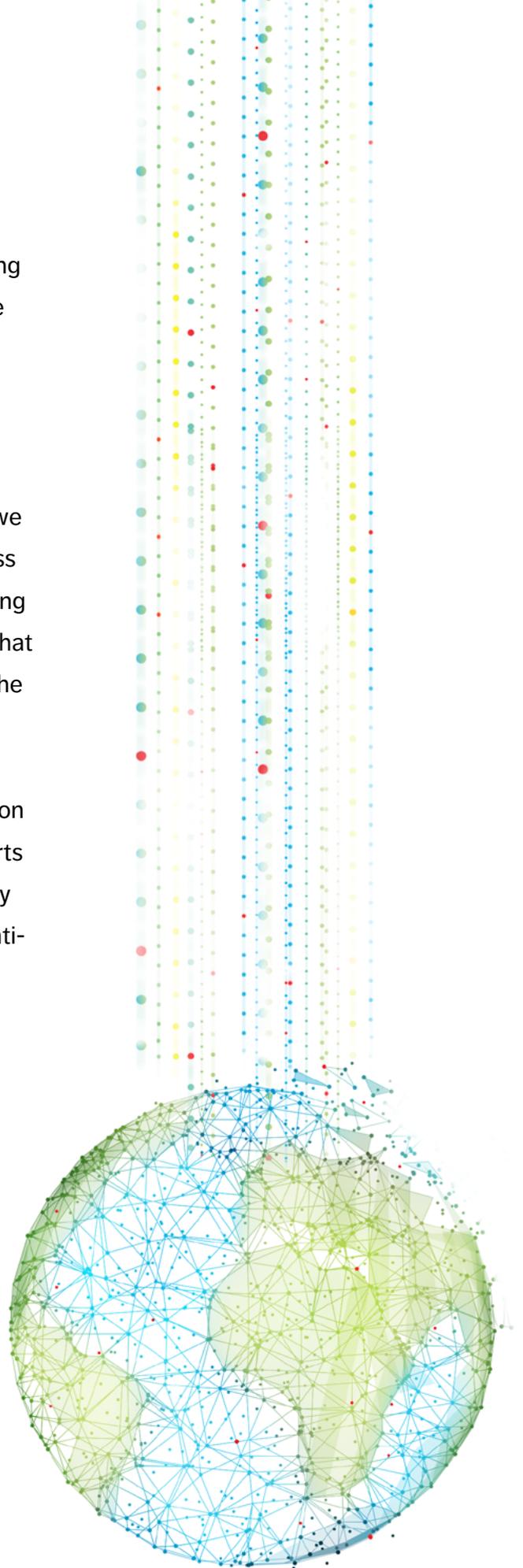
Q: How engaged is your company’s leadership with anti-bribery and corruption efforts?



CONCLUSION

The anti-bribery and corruption landscape is changing rapidly, as concerns expand about opaque corporate structures, third parties, and new regulations. A commitment to establishing and supporting strong anti-bribery and corruption efforts is one of the best ways for an organization to protect itself against reputational, legal, and financial damage. This year, we have also witnessed how growing partnerships across organizations and prioritization by leaders are enabling best-in-class anti-bribery and corruption programs that protect not only organizations individually, 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 organization. Kroll and Ethisphere stand ready to help you understand and execute best-in-class anti-bribery and corruption initiatives.



THE EXPERTS

Kroll Experts



John Arvanitis

Associate Managing Director, Compliance
North America

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.



Steven J. Bock

Global Head of Operations, Compliance

Based in New York, Steve manages Kroll's Compliance operations and research teams worldwide. With an unremitting focus on high-quality client service, Steve has led a number of innovative improvements that include an automated case assignment process. Prior to Kroll, Steve served for more than 17 years in a number of senior leadership roles at Goldman Sachs.



Kevin Braine

Managing Director, Head of EMEA Compliance

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.



Paul Jackson

Managing Director and APAC Leader, Cyber Security and Investigations

Paul Jackson is a Managing Director and Asia-Pacific Leader for Kroll's Cyber Security and Investigations Practice, based in the Hong Kong. He has extensive experience in the area of cyber security applying a highly nuanced view of global challenges to help clients. Paul refined his expertise while serving in some of the region's highest levels of law enforcement and corporate enterprise and through his work with organizations such as Interpol, the U.S. Secret Service's Electronic Task Force, and Microsoft's Digital Crimes Consortium.



David Liu,

Managing Director, Head of APAC Compliance

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.



Peter Turecek

Senior Managing Director, Investigations and Disputes, North America

Peter Turecek is a Senior Managing Director with Kroll's Investigations and Disputes practice, based in New York. Pete is an authority regarding investigative due diligence, multinational investigations, and asset searches as well as hedge fund-related business intelligence services for investment decision-making. He also assists clients with a variety of other investigations related to litigation support, corporate/proxy contests, employee integrity, and securities fraud.

THE EXPERTS

Ethisphere Experts



Erica Salmon Byrne,
Executive Vice President &
Executive Director of Business Ethics
Leadership Alliance, Ethisphere

Erica is the Executive Vice President, Governance and Compliance for The Ethisphere Institute, where she has responsibility for the organization's data and services business and works with Ethisphere's community of clients to assess ethics and compliance programs and promote best practices across industries. Erica also serves as the Executive Director of the Business Ethics Leadership Alliance; she works with the BELA community to advance the dialogue around ethics and governance.



Douglas Allen
Managing Director, Data Services

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.

METHODOLOGY

Kroll and Ethisphere partnered to create the 2018 Anti-Bribery and Corruption Benchmarking Report. Senior-level executives working in ethics, compliance, or anti-corruption worldwide were invited to respond to the survey, which was in field from October 4, 2017, to December 8, 2017.

The survey produced 448 complete and partial responses. Respondents were not required to answer every question.

Nearly half of respondents (46 percent) represented publicly listed companies; an additional 46 percent represented privately held companies, and nine percent identified their organizations as a non-profit or other type of organization. The majority of organizations have headquarters in the United States (58 percent), followed by the United Kingdom (21 percent), Western Europe (21 percent), Brazil (18 percent), and Central/Eastern Europe (16 percent).

Thirty-eight percent of respondents held the title of compliance and ethics officer or chief compliance officer, followed by director (12 percent) and manager (12 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 (22 percent), followed closely by finance and insurance (17 percent).

The median worldwide annual revenue of the qualified respondents was \$1 billion to \$5 billion (US dollars).

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 45 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 www.ethisphere.com.





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