

AlixPartners Annual Global Anti-Corruption Survey

Survey of General Counsel and Compliance Officers

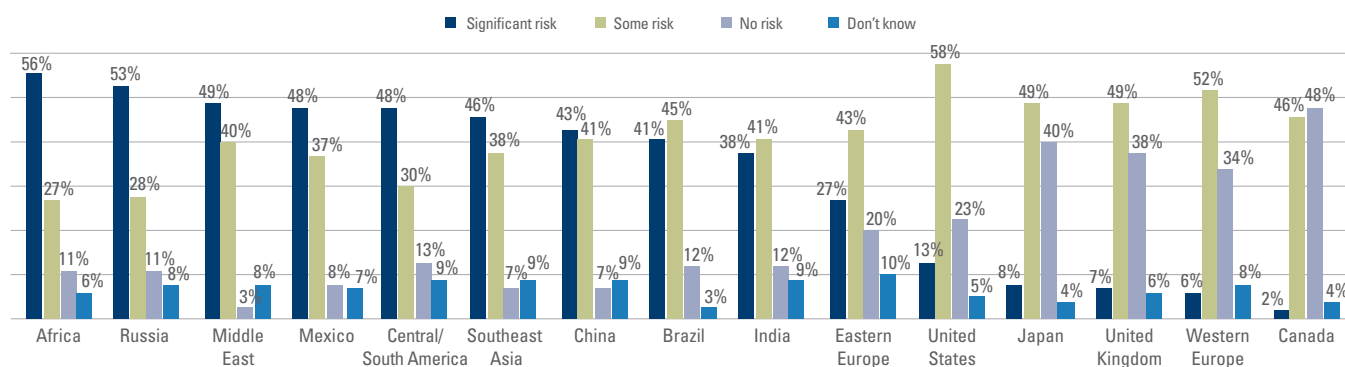
The number of US Foreign Corrupt Practices Act (FCPA) enforcement actions fell in 2013, but still, in that year both the US Securities and Exchange Commission (SEC) and the US Department of Justice (DOJ) brought FCPA actions against multinational companies and individuals that resulted in hundreds of millions of dollars in settlements and disgorgements of profits.¹ At the same time, the SEC and the DOJ continued working with international authorities to identify possible FCPA violations in their investigations. Globally, the United Kingdom's Serious Fraud Office reaffirmed its commitment to enforcement of the UK Bribery Act and provided new guidance on self-reporting; and Brazil announced it would revise its anti-corruption statutes to more closely align them with the provisions of the FCPA. Meanwhile, the SEC said that during its fiscal year, it had received

from whistle-blowers 149 tips involving potential FCPA violations and that it expects the whistle-blower program to produce more enforcement cases in 2014.²

Corruption Is Alive and Well in Many Parts of the World

Mindful of those trends, we conducted our Annual Global Anti-Corruption Survey,³ which revealed that 30% of respondents had reported that they had ceased doing business with certain partners because of concerns related to corruption. Africa was perceived to be the riskiest place to do business: 56% of participants said doing business there posed significant risk. Russia came next, at 53%, followed by the Middle East at 49%, Central and South America⁴ at 48%, Mexico at 48%, and Southeast Asia⁵ at 46% (figure 1).

Figure 1: Which countries or geographic regions pose significant corruption risks?



Note: Totals may add to more or less than 100% due to multiple-response options.

¹ SEC Annual Report, Fiscal Year 2013, <http://www.sec.gov/spotlight/fcpa/fcpa-cases.shtml>, and <http://www.sec.gov/News/PressRelease/Detail/PressRelease/1370540503617#.UrcvDvRDvkJU>.
² Comments by Andrew Ceresney, keynote address at the International Conference on the Foreign Corrupt Practices Act, November 19, 2013, <http://www.sec.gov/News/Speech/Detail/Speech/1370540392284>.
³ *AlixPartners Annual Global Anti-Corruption Survey* was conducted in November 2013. It polled general counsel, compliance officers, and other senior executives about their companies' anti-corruption efforts and compliance policies aimed at identifying and mitigating corruption risk. The survey group consisted of executives at companies based in North America, Europe, the Middle East, and Asia that have annual revenues of \$150 million or more.
⁴ Excludes Brazil and Mexico.
⁵ Consisting of Indonesia, the Philippines, and Vietnam.

Still, 70% of respondents indicated that they have not avoided doing business in a region only because of possible corruption risk. Bribery and corruption risks can also be the major reasons behind failed mergers-and-acquisitions transactions. Accordingly, the survey found that 15% of respondents' companies have pulled out of acquisition deals because of possible corruption at the target.

Companies Adopt Anti-Corruption Compliance Programs, But Challenges Persist

Companies appear to be taking the strict enforcement environment seriously, because a significant majority of respondents said their companies have formal anti-bribery and anti-corruption policies in place. Most are taking steps to facilitate involvement by key stakeholders: 97% of respondents said their companies distribute those policies in writing to board members and employees. The enforcement of anti-bribery and anti-corruption laws is also affecting the frequency with which companies evaluate the efficacy of their compliance policies. Three-quarters of respondents said their companies had updated their policies during the previous 12 months.

Senior Management and Hotlines Can Be Effective in Anti-Corruption Compliance

Our survey also attempted to identify the specific methods and tools that have been effective in mitigating complex bribery issues, some of which stem from the unique business cultures and practices of foreign countries. For identification of potentially improper payments, respondents pointed to internal audits, employee training, and greater oversight of books and records or internal controls as the practices that have been the most effective at reducing risk. The survey also found that senior management

plays an important role in companies' anti-corruption efforts: 73% of respondents said that involvement by audit committees and boards of directors has been effective in reducing risk. Company-established hotline programs can also be effective tools for identifying anti-corruption compliance risks. Twenty-two percent of respondents said that via their hotlines, they received tips related to bribery or corruption during the past year.

Challenges in Anti-Corruption Compliance

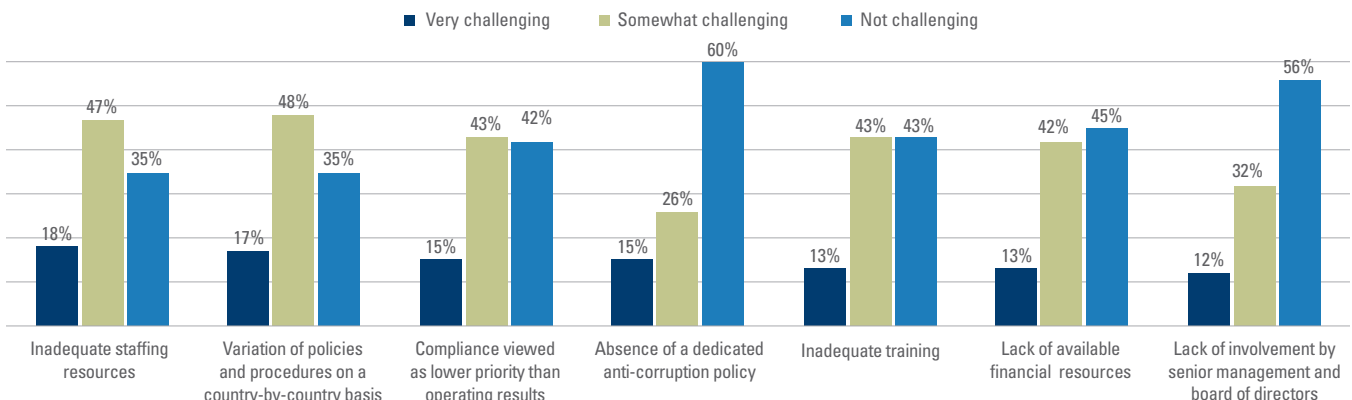
Entry into high-risk markets carries with it a host of challenges, ranging from working with state-owned enterprises and networks of vendors to navigating country-specific regulations. Respondents said the biggest obstacles to their companies' anti-corruption efforts and ability to mitigate risk areas were staffing constraints (65%); variations in local country regulations covering, for instance, data privacy (65%); and pressure to deliver operating results (58%) (figure 2).

The survey also found that although some companies have expanded the scope of their reviews of their foreign subsidiaries, one-third said they have not done that. Less than half (43%) of respondents said they regularly conduct due diligence on third-party agents, and only 47% continually perform such reviews of prospective employment candidates.

Corruption Risk Perception Gap between US and European Companies

A majority of respondents from US companies and companies in Europe, the Middle East, and Africa (EMEA) indicated not only that corruption risk exists across a wide range of industries but also that there was a perception gap between the two

Figure 2: Describe the degree to which the following pose challenges in your company's ability to address corruption risk



Note: Totals may add to more or less than 100% due to multiple-response options.

groups when it came to the level of severity of that risk. Only one in five respondents (20%) at EMEA companies said their industries are exposed to significant corruption risk, compared with 40% of US respondents (figure 3).

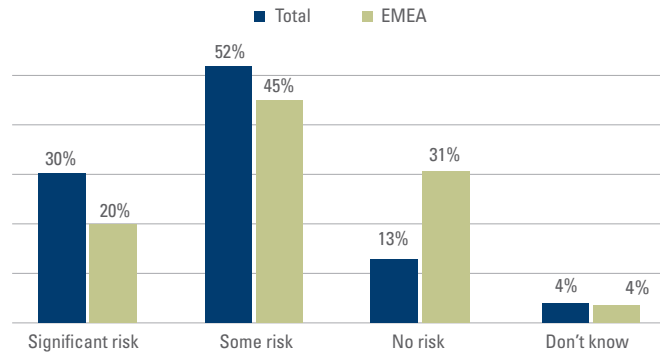
Respondents from EMEA companies also appear less likely than US-company respondents to conduct due diligence on prospective employment candidates: only 29% said they continually perform reviews of potential employees—versus 63% among US respondents. Respondents from US companies report having the most success in mitigating corruption risk by providing employee training: 88% said such training has been effective. US respondents also cited as an effective measure the increased scrutiny of books and records or internal controls to identify potentially improper payments: 76% said such scrutiny has helped them reduce risk.

Asian Companies Perceive Risk across Industries

The survey found that 80% of executives at Asian companies said they believe their industries are exposed to significant corruption risk. Those respondents said risk is unavoidable in Southeast Asia (Indonesia, the Philippines, and Vietnam). However, Asian company respondents were less likely to perceive the presence of risk in China—as only 14% said China posed significant risk, compared with 43% among the overall respondent group.

The survey found that 30% of Asian respondents regularly conduct due diligence on third-party agents, whereas 20% said they regularly conduct reviews of prospective employment candidates. According to the survey, 63% of respondents in Asia said their companies have whistle-blower hotlines. Respondents said that among all of the measures taken to reduce risk, they placed the most emphasis on employee training, internal audits, and training measurement systems. The survey found that Asian companies were less likely than the entire respondent pool to cut ties with business partners due to possible corruption risk:

Figure 3: To what degree do you believe that your industry is exposed to business practices that may constitute corruption?



78% of respondents with Asian companies said they had not ceased doing business with partners as a result of such concerns, compared with 45% for the respondent group as a whole.

Conclusion

We thank the professionals who participated in our survey for providing valuable insights into their organizations' state of anti-corruption compliance and into the ways their organizations are dealing with bribery and corruption risk. The *AlixPartners Annual Global Anti-Corruption Survey* revealed that even though companies are taking steps to reduce their risk exposure, it may also be important for them to take steps—ranging from performing appropriate due diligence to ensuring involvement by senior management—to identify potential problems *before* they escalate. At the same time, it is important that company executives pay close attention to the anti-corruption laws applicable to the countries where they conduct business. With emerging markets likely to continue presenting growth opportunities, companies will continue being faced with important decision making around the balancing of risk and reward.

FOR MORE INFORMATION, PLEASE CONTACT:

North America

Harvey Kelly

Managing Director
+1 (646) 746-2422
hkelly@alixpartners.com

Louis Dudney

Managing Director
+1 (312) 551-3269
ldudney@alixpartners.com

EMEA

Andrew Grantham

Managing Director
+44 20 7098 7474
agrantham@alixpartners.com

Asia

Mike Murphy

Managing Director
+1 (415) 848-0302
mmurphy@alixpartners.com

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