

# 2012

## FCPA Benchmarking Report

Compliance Officers Assess Bribery Risk at U.S. Multinationals

Kroll Advisory Solutions report finds exposures in third party screening, facilitating payments and political donations despite compliance executives' widespread confidence in preparations

 **Kroll Advisory Solutions**<sup>SM</sup>

An Altegrity Company



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## Introduction

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The 2012 Kroll FCPA Benchmarking Report is an in-depth study designed to take the pulse of corporate compliance officers at U.S.-based multinationals and to provide benchmarks for the current state of anti-bribery preparedness.

The study was undertaken as part of Kroll's ongoing commitment to uncovering intelligence on both the operational and strategic risk exposures faced by today's multinational organizations. Developed as a complement to Kroll's annual [Global Fraud Report](#), the 2012 FCPA Benchmarking Report is focused on international bribery risk and provides executives involved in the compliance process with a set of benchmarks for evaluating their own risk exposures.

Kroll prepared these materials for informational purposes only. These materials are not intended to be comprehensive, and are not a substitute for, and should not be construed as, legal advice. Kroll does not warrant any statements in these materials. Employers should direct to their own experienced legal counsel questions involving their organization's compliance with or interpretation or application of laws or regulations and any additional legal requirements that may apply.



## Key Objectives

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- » Identify corporate exposures, concerns, and levels of preparedness relative to the Foreign Corrupt Practices Act (FCPA) and UK Bribery Act.
- » Understand how these factors affect the ability of companies to manage bribery risk.
- » Survey the extent to which compliance executives feel they are compliant with the FCPA.
- » Learn how various anti-corruption practices might be used in the future.
- » Profile executives in varying industries to gain insight into the attitudes that influence how they think about and respond to corruption risk.



## Research Methodology

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A total of 139 senior corporate compliance executives from companies ranging in size from \$100 million to over \$10 billion in revenues per year were interviewed by phone from July 2011 to February 2012. Interviewing was conducted by the executive field staff of Andrews Research Associates, Inc. Altogether, executives from 34 states in the continental United States took part in the study.

To participate in the study, executives had to be the person in the company who was either:

- » The company's Chief Compliance Officer
- » Responsible for ensuring their organization's FCPA compliance and reducing their risk to corporate corruption
- » Shared those responsibilities with others

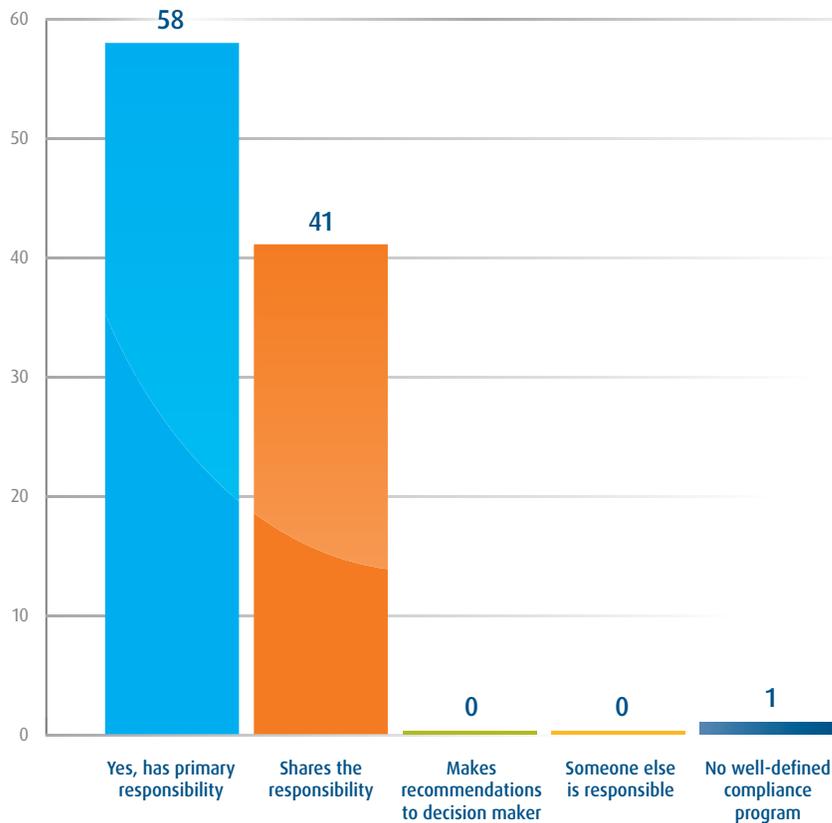
The results of the interviews were analyzed against objective measures of anti-bribery compliance to identify the most significant sources of risk exposure at large multinationals. In addition, a segmentation analysis was conducted to probe executive attitudes toward anti-bribery risk and compliance. The analysis produced five distinct respondent profiles, each with unique perceived and actual risk profiles.

## Survey Participants

Just over half (58 percent) of the participants had primary responsibility for making decisions about compliance with anti-bribery laws at their companies. The remaining 41 percent shared that responsibility with other executives.

The average (mean) annual sales of the study's participating companies were \$7.3 billion. A majority (75 percent) had sales of more than \$1 billion, and 34 percent had sales of more than \$10 billion. Although the survey did not ask systematically about the number of countries in which the participating companies had operations, anecdotal evidence (i.e., comments volunteered by the respondents in response to unrelated questions) indicates that in some cases the companies were active in as many as 170 countries. Such global exposure makes the task of ensuring compliance with anti-bribery regulation complex.

By design, the sample of companies whose executives took part in the study was drawn mainly from four industries: financial services (37 percent), IT/telecommunications (20 percent), energy (11 percent), and pharmaceuticals (9 percent). The remaining respondents represented other industries, such as manufacturing, defense, logistics, etc.





## Executive Summary

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The siren song of emerging markets is calling out louder than ever for multinational companies in mature economies. But with global expansion comes global risk. As more firms expand their supply chains into high-risk emerging markets—often using networks of vendors and agents to rapidly put boots on the ground in these regions—they are increasingly exposed to the types of fraud risk that can compromise their global aspirations.

Centering the issue are two laws that can create serious compliance concerns for multinational corporations: the FCPA and the UK Bribery Act. The number of FCPA enforcement actions increased 85 percent from 2009 to 2010, with 48 new U.S. Department of Justice (DOJ) cases and 26 new Securities and Exchange Commission (SEC) actions filed<sup>1</sup>. In total, companies paid a record \$1.8 billion in financial penalties to the DOJ and SEC in 2010 according to data from both agencies.

While many multinationals have seen this trend evolving and have started to implement anti-bribery and anti-corruption compliance programs, corporate compliance officers are still not convinced that their companies are sufficiently protected from the threat of FCPA violations within their organizations. What are their biggest concerns and how are they preparing to address them?

The 2012 Kroll FCPA study found that, despite significant investment in anti-bribery compliance, the majority of large-company corporate compliance officers are concerned about their exposure to bribery risk, and many are falling short on best practices with respect to third party screening, facilitating payments, and political donations. It also finds that executives in the pharmaceutical industry expressed more concern about the impacts of global anti-bribery enforcement than their counterparts surveyed in the financial, energy, technology, and telecommunications sectors.

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<sup>1</sup> According to data tracked by the law firm Gibson Dunn & Crutcher LLP

## Exposed to Risk | Key Findings

While perceived exposure to risk varied from industry to industry, the majority of compliance executives participating in the survey expressed vulnerability to bribery risk.

Sixty-nine percent of all respondents said their companies were either moderately or highly exposed to bribery risk; this number jumps to 100 percent in the pharmaceutical industry and drops to 46 percent in the financial services industry.

### Perceived Exposure to Risk Related to Compliance with Anti-Bribery Laws

	All Respondents	By Industry			
		Financial	Energy	IT/Telecom	Pharma
Our company is highly exposed to risk related to anti-bribery regulations	24%	8%	33%	25%	54%
Our company is moderately exposed to risk related to anti-bribery regulations	45%	38%	40%	50%	46%
Our company has only limited exposure to risk related to anti-bribery regulations	19%	31%	20%	11%	--
Our company has no significant exposure at all	12%	21%	7%	14%	--

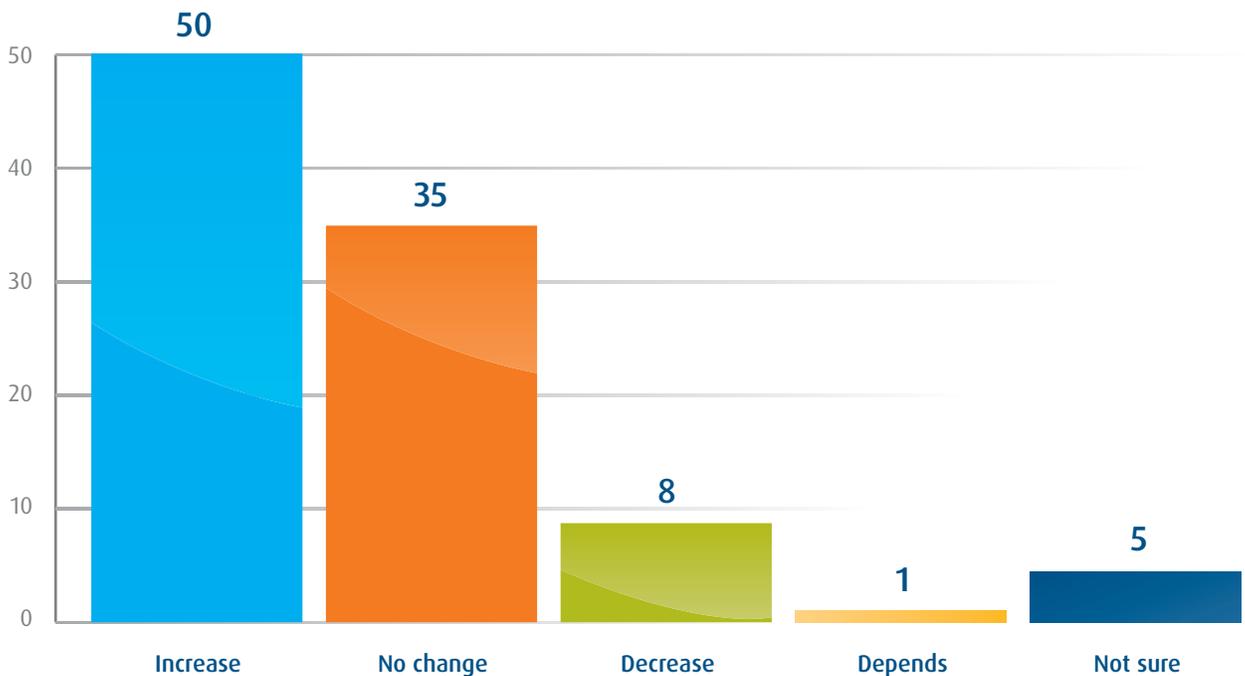
“Doing business in high-risk countries opens up high exposure. It is difficult to control all possibilities, especially when cultural norms accept and approve and expect the behavior.”

### In Their Own Words

## Risk Is Here to Stay | Key Findings

Ninety-five percent of respondents believe their companies' exposure to bribery risk has increased or held steady over the last two to three years. Moreover, 85 percent believe it will increase or stay the same in the future. Among the industries surveyed, energy executives (40 percent) are less likely than those in other industries to perceive that the risks have increased. The largest and most geographically dispersed companies in the survey were also the most likely to report increased exposure to bribery risk over the last two to three years.

### Expectation of Bribery Risk Exposure in the Future



*One percent of respondents refused to answer the question.*

Among those who believe that risk is increasing, many executives attribute the trend to an expectation that globalization will increase the number of international clients they will be dealing with (24 percent), while others pointed to specific risks emanating from emerging markets (17 percent) and others cited growing reliance on third parties (9 percent).



## Compliance Function Is Growing | Key Findings

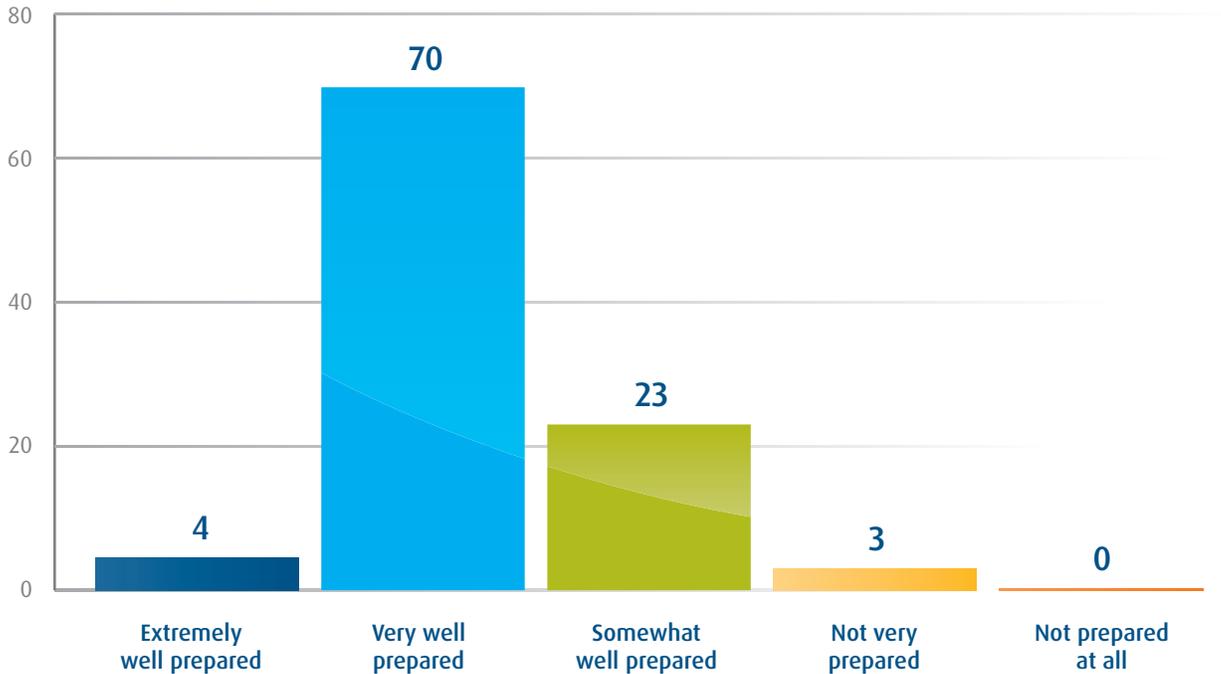
As companies ramp up their anti-bribery compliance efforts, compliance departments are growing and becoming more central to the overall business.

Fifty-three percent of respondents said their compliance departments have increased their budgets in the last year; 49 percent said they have increased hiring; and 22 percent said they have experienced a centralization of compliance decision-making.

	Total		
	Yes	No	Not Sure
An increased budget	53%	45%	2%
Increased hiring	49%	51%	--
A change in its mandate	27%	71%	3%
Centralization of its power	22%	78%	--

## Confident in Preparations | Key Findings

When asked how confident they were in their anti-bribery compliance programs, 70 percent of respondents characterized themselves as very well prepared, while 23 percent said they were somewhat well prepared. Four percent said they were extremely well prepared and 3 percent said they were not very prepared.



Respondents cited effective policies and controls (56 percent) and training of their employees in anti-bribery compliance (31 percent) as the two biggest reasons they felt very well prepared. Other factors included organizational commitment (20 percent), a proactive approach toward anti-bribery issues (19 percent), and a perception that their risk level is inherently low (15 percent).

Among the specific initiatives companies are implementing to minimize bribery risk, employee training (60 percent) and setting the tone from the top by establishing executive-level commitment to anti-bribery measures (23 percent) were the most commonly cited.

The most frequently cited challenges to anti-bribery compliance include the inability to anticipate regulators' next moves (21 percent) and ensuring that employee training is taken seriously and is used when a risky situation presents itself (20 percent).

### In Their Own Words

"Because our Board is involved, management is clearly in tune, sets the tone from the top that there will be no appetite for it. We're not going to tolerate bribery. We don't allow gifts of any kind to government officials."

"We have good training and eyes & ears and the combination of good employees and good awareness of anti-bribery rules. [...] Our knowledge is high."

## Anti-Corruption Training | Key Findings

When it comes to anti-corruption training, the majority of compliance officers surveyed (68 percent) said they conduct either web-based training or in-person training or a combination of both. Of these, 52 percent conduct online training only; 40 percent conduct in-person training only; and 10 percent conduct training via webinar or teleconferencing.

Training is conducted once per year by most respondents (71 percent), while 9 percent conduct training every two years and 13 percent said they conduct training less frequently than every two years.

How Anti-Corruption Training Is Delivered	
Online training only	52%
In-person training only	40%

Frequency of Anti-Corruption Training	
Training conducted once per year	71%
Training conducted every two years	9%
Training conducted less frequently than every two years	13%
Other	7%



## The Compliance Offense | Key Findings

Is a proactive defense the best offense when it comes to a compliance strategy? Compliance executives at large U.S. companies seemed to think so. Seventy-nine percent of respondents characterized their compliance efforts as a strategic advantage in addition to being a strong defensive tactic.

	%
Compliance is purely defensive in nature	19%
Compliance can provide competitive advantage	42%
Compliance can be defensive as well as provide a competitive advantage	37%
Depends	1%
Does not apply to our firm	1%

According to respondents, robust compliance policies and procedures provide a competitive advantage both inside and outside the company. The external benefits include enhancing reputation with customers (27 percent); enabling better service for their clients (9 percent); promoting sales (6 percent); and improved relationships with vendors. Internally, the advantages range from a positive impact on employee morale (8 percent); freeing up management attention to focus on the business itself (5 percent); and for a small number, greater peace of mind (1 percent).

The minority who felt compliance was defensive only believe compliance is a component of reputation, and that reputation provides a competitive advantage (12 percent).

### In Their Own Words

“Prosecution and investigations are costly and take away from focus of company on developing business. Compliance is required to avoid these serious distractions.”

“Costs and implications have practical and rational dollar risks. Employees like to work for companies with integrity and governance of risks, to be able to do business with various parties with a clean slate.”

## Third Parties Pose Largest Overall Risk | Risks

To further probe the specific strengths and weaknesses of corporate compliance programs among multinational corporations, the survey results were analyzed against objective measures of anti-bribery compliance. By comparing survey responses with FCPA compliance best practices, Kroll was able to identify the most significant sources of risk.

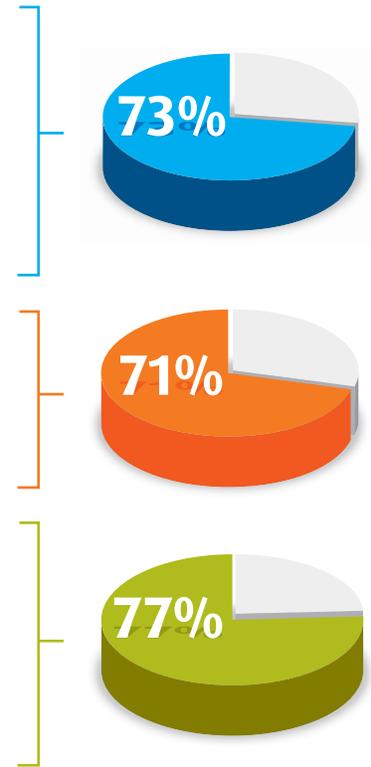
According to this analysis, the weakest link among survey respondents was how they handled third party relationships. While 99 percent of respondents said they had anti-bribery provisions for employees in their companies' codes of conduct, that number fell to 73 percent when compliance officers were asked about anti-bribery provisions for third parties. Though a majority of respondents do have third party anti-bribery provisions in place, the discrepancy between the treatment of employees and third parties is a noteworthy inconsistency in adherence to best practices among the survey population.

Seventy-one percent of those surveyed require third parties to disclose any affiliations with foreign officials; 65 percent verify that third parties adhere to the company's code of ethics; and 73 percent confirm that each third party is free from sanctions pertaining to compliance with anti-bribery regulation. Twelve percent of respondents said their companies conduct no due diligence on third parties.

The scope of this potential risk is exacerbated by the fact that approximately three in four U.S. companies (77 percent) report that they partner with foreign companies to do business abroad. Thirty-seven percent of respondents said they do business with between 100 and 1,000 third parties; 27 percent said they work with between 1,000 and 10,000 third parties; and 17 percent said they work with between 10,000 and 100,000 different third parties. A small number said they worked with more than 100,000 different third parties.

Respondents cited the following reasons that prospective partners fail on anti-bribery compliance:

- » Unusual payment structure (34 percent)
- » Use of agents, third parties, or consultants (35 percent)
- » Exposure to high-risk countries/regions (60 percent)
- » Clear-cut evidence of paying bribes in previous business dealings (37 percent)
- » Known dealings with sanctioned entities (28 percent)



"We're constantly monitoring our customers. We're not allowed to do business in certain countries because of regulations, so we have procedures that will bring expansion of existing customers to our attention."

### In Their Own Words

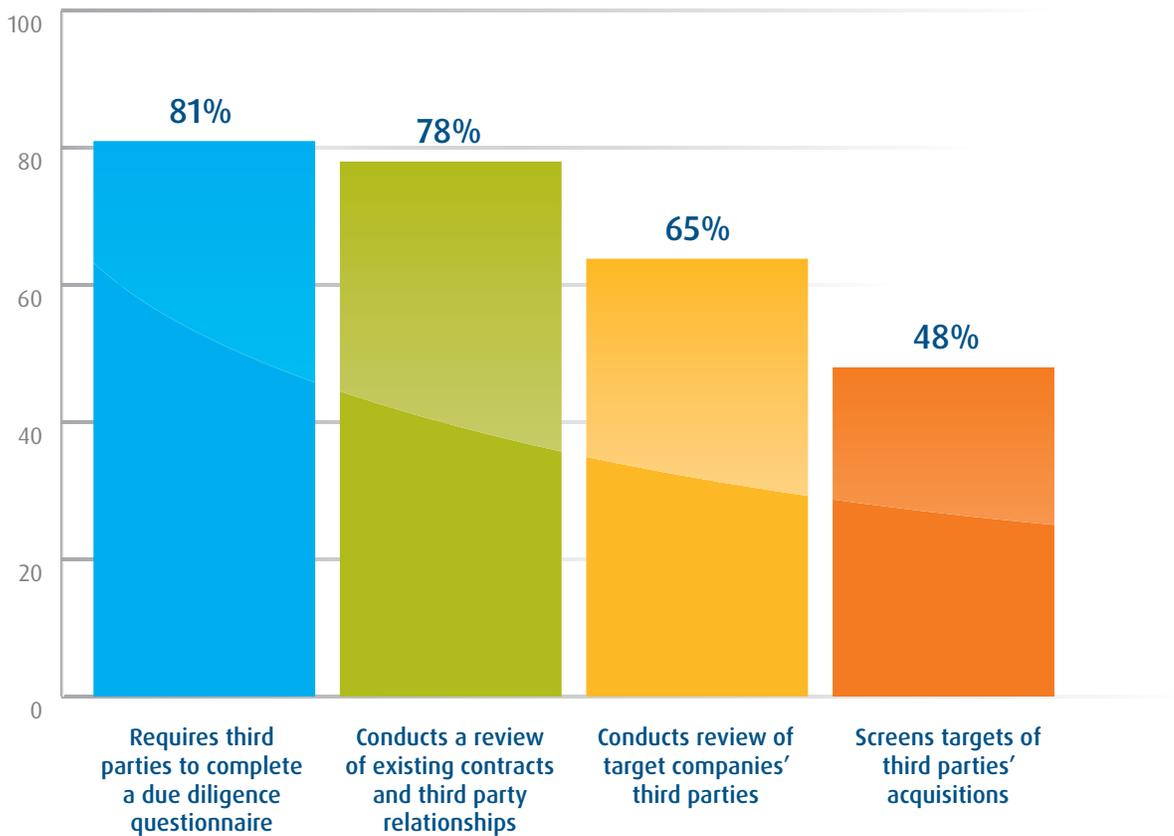
"Foreign countries have very different legal systems than the U.S. Plus, business is conducted differently. It is difficult to effectively operate in these countries while still complying with U.S. laws. Cultural traditions, customs and trade practices are hard to control."

## M&A Creates Conduit to Third Party Risk | Risks

As companies look to grow through acquisitions or partnerships overseas, an appropriate level of due diligence is necessary to avoid running afoul of anti-bribery legislation. More than three-quarters of those surveyed, 81 percent, said they require the other party to complete a due diligence questionnaire or similar document to vet their level of compliance with anti-bribery regulation. Moreover, 78 percent review existing contracts and third party relationships to minimize noncompliance with the regulations; 65 percent review their target companies' third parties for potential corruption; and 48 percent screen the targets of third parties' acquisitions.

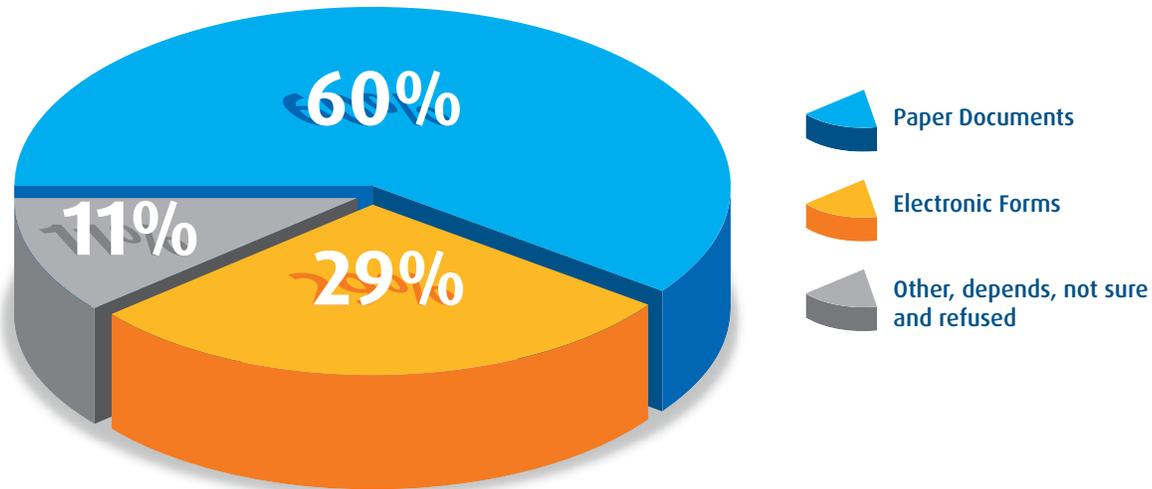
**Nineteen percent of all respondents said they have abandoned or renegotiated a merger/ acquisition as a result of failed anti-bribery compliance.**

### M&A Third Party Risk Prevention Measures



## Managing Third Party Data | Risks

According to the survey, a notable weakness in compliance strategy is the lack of a centralized technology-enabled system to send, collect, and analyze third party compliance questionnaires. Although 71 percent of the companies surveyed require third parties to complete such questionnaires, 60 percent of these do so using a manual, paper-based process. Only 29 percent of respondent companies have a standardized technology-enabled system to manage third party questionnaires.



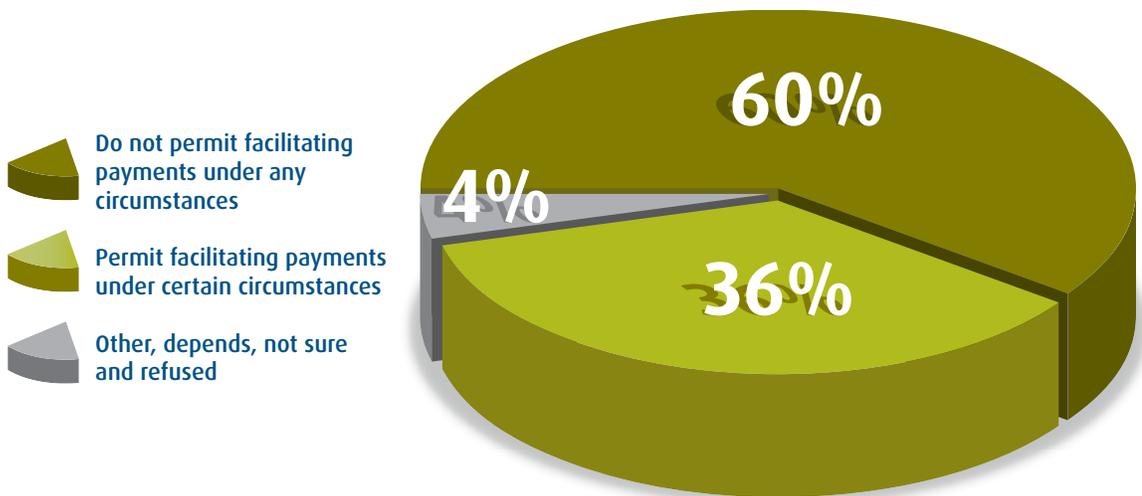
Companies with annual revenues of \$10 billion or more are most likely to employ technology-enabled data management systems, though even they rely on paper at times. This inconsistency speaks to the lack of standardization among even the largest companies. In general, respondents attributed increased bribery risk exposure to decentralized, paper-based data management, which makes it easier for red flags to go undetected.



## Facilitating Payment Policies Vary | Risks

While the FCPA does contain provisions under which certain facilitating payments are acceptable, the UK Bribery Act has made them illegal under any circumstances. Despite that, 36 percent of respondents permit facilitating payments under certain circumstances compared with 60 percent whose companies do not permit facilitating payments under any circumstances. Nineteen percent of those surveyed do not have a written policy with respect to facilitating payments.

**Only sixty-eight percent of respondents are able to track payments made through third parties to their intended recipients.**

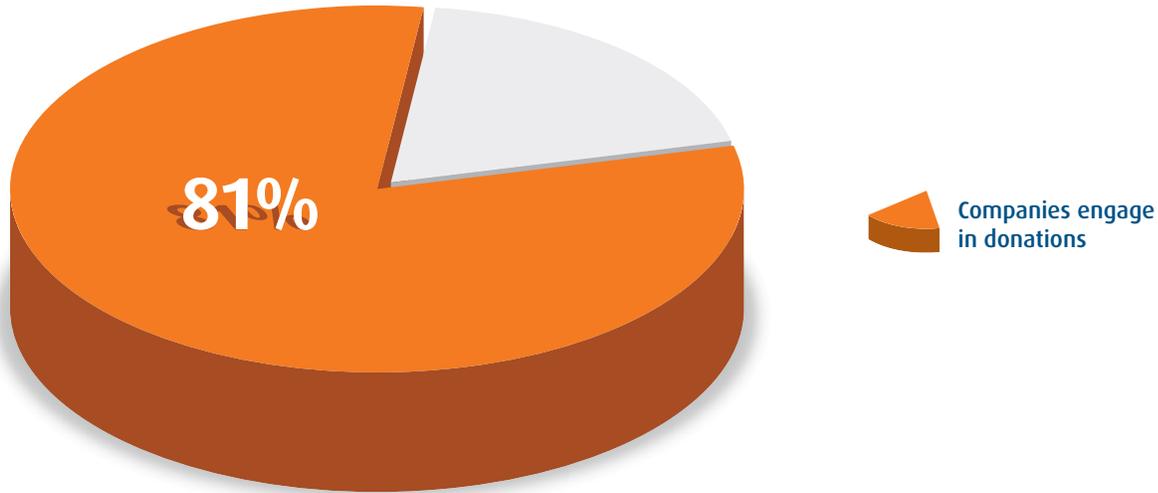


### In Their Own Words

“Increased transparency is required in all business dealings. One employee acting on something he *thinks* is OK can cost the company tremendous fines.”

## Political and Charitable Donations Create Gray Area | Risks

Eighty-one percent of respondents said their companies engage in political and charitable donations.



While companies have yet to forecast this as a primary area of concern, the exchange of funds is significant and widespread enough to warrant further scrutiny among corporate compliance officers.

Twenty percent of respondents could not answer affirmatively when asked if payments made by foreign managers are governed by the same rules as payments made by domestic managers.

### Gifts and Entertainment

While 99 percent of respondents have a gifts and entertainment policy for employees, that number drops to 75 percent for vendors, agents, and third parties.

"We wanted people who are filling out expense reports to know what things are allowed or not. Normally, any gifts are small dollar amounts, under \$500."

### In Their Own Words

## Industry Focus

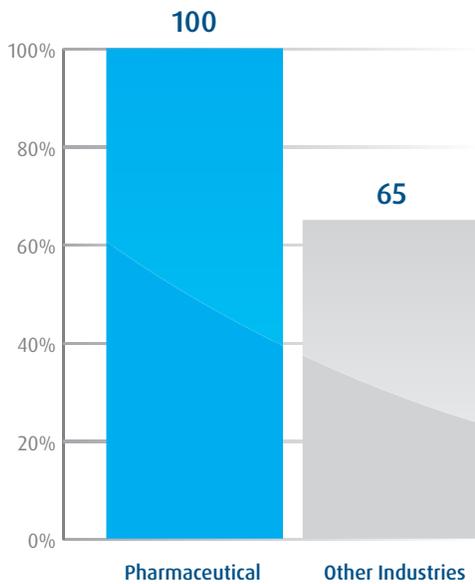
### Pharmaceutical Industry—Most Exposed and Most Prepared

Across the board, compliance officers representing pharmaceutical companies reported consistently higher exposure and more rigorous approaches to bribery risk management than their counterparts in other industries. This was true in respondents' perceptions of their companies' risk, handling of third party screening, compliance activities surrounding mergers and acquisitions, and policies on facilitating payments.

### Overall Exposure

One hundred percent of pharmaceutical industry respondents said their companies were either moderately or highly exposed to risk related to compliance with anti-bribery laws compared with 69 percent of financial, energy, and IT/telecommunications companies. The study found three key areas in which the pharmaceutical industry reported more proactive risk measures than other respondents: third party screening, facilitating payments, and M&A due diligence.

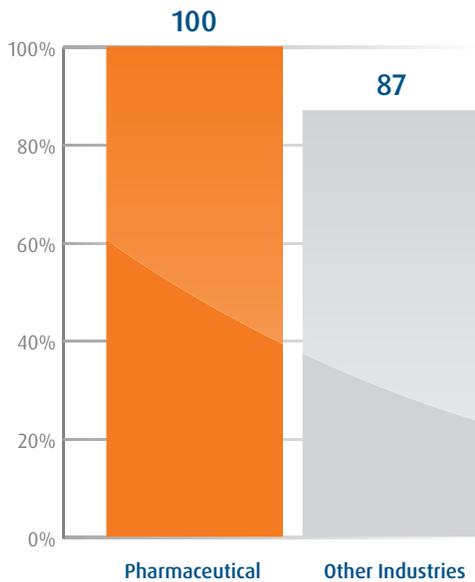
	%		% By Industry		
	All Respondents	Financial	Energy	IT/Telecom	Pharma
Our company is highly exposed to risk related to anti-bribery regulations	24%	8%	33%	25%	54%
Our company is moderately exposed to risk related to anti-bribery regulations	45%	38%	40%	50	46%
Our company has only limited exposure to risk related to anti-bribery regulations	19%	31%	20%	11%	--
Our company has no significant exposure at all	12%	21%	7%	14%	--



### Third Party Screening

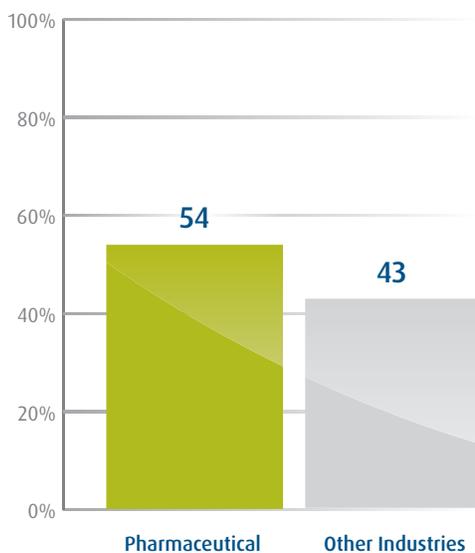
One hundred percent of pharmaceutical industry respondents conduct screening to confirm that each third party is free from sanctions pertaining to compliance with anti-bribery regulation. This compares with 65 percent of respondents in the financial, energy, and IT/telecommunications sectors that conduct the same screening.

The starkest contrast we found when comparing pharmaceutical industry respondents to the full survey population was in their handling of third party screening. The data portrays a more proactive approach to compliance and reflects the pharmaceutical industry's perceived high level of exposure.



### Facilitating Payments

One hundred percent of pharmaceutical industry respondents said they have a policy prohibiting facilitating payments. This compares with 87 percent among the other industries surveyed.



### M&A Due Diligence

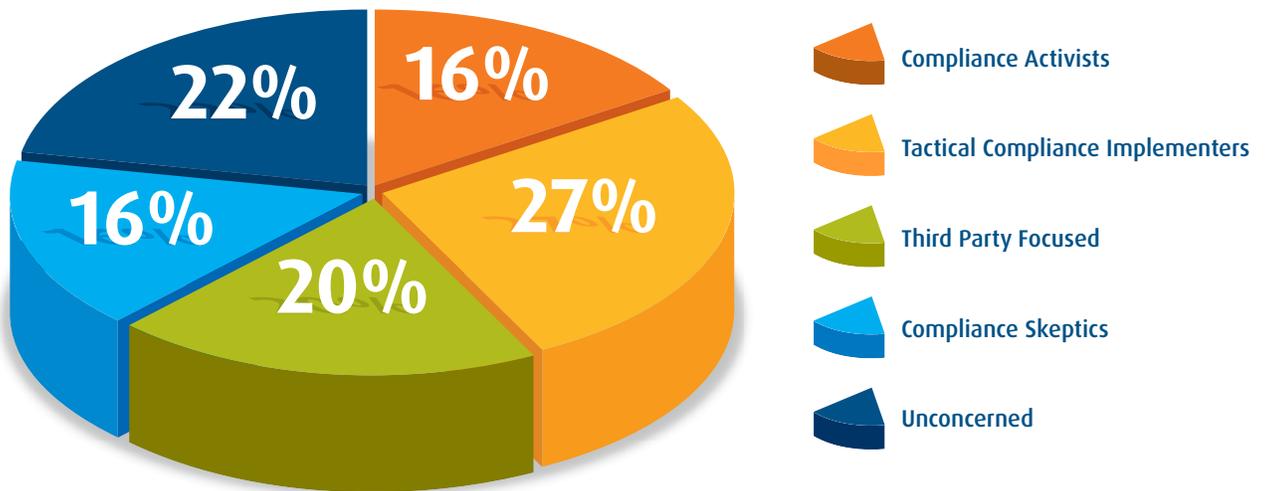
While 43 percent of all financial, energy, and IT/telecommunications respondents screen targets of third party acquisitions, more than half (54 percent) of pharmaceutical industry respondents screen targets in M&A due diligence.

## Introduction | Respondent Profiles

To further examine the variations in compliance officers' attitudes toward anti-bribery compliance, we conducted a multivariate cluster analysis resulting in five distinct respondent profiles. Among the factors that contribute to these profiles are perceived risk, perceived vulnerability to that risk, and perceived preparedness. The profiles that resulted provide a better understanding of the underlying psychographic structure of executives who took part in the study. These profiles do not correlate with any specific industry segment or size of company.

Using maximization and minimization algorithms, clustering software separated all 139 respondents into five profiles. Executives were assigned to their segment based on the greatest internal consistency with those profiles.

We have named the five profiles the **Compliance Activists**, the **Tactical Compliance Implementers**, the **Third Party Focused**, the **Compliance Skeptics**, and the **Unconcerned**.





## Compliance Activists | Respondent Profiles

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The **Compliance Activists** described 16 percent of respondents. Characterized by the perception of high exposure to bribery risk, high concern for exposure, and strong preparatory measures in place, these companies have established robust policies and procedures to mitigate bribery risk. They often partner with foreign companies to do business overseas and are highly concerned about the potential impact of bribery risk. They have procedures in place for conducting anti-bribery training and attribute great importance to the UK Bribery Act. They have protocols for analyzing bribery risk for their commercial relationships.

### In Their Own Words

“Our detailed policies on anti-corruption are well-designed and are at the forefront of corruption controls for emerging markets.”

“We have a well-developed compliance program that is delivered to staff and third parties.”

“The legal department acts on every suspicion.”

“FCPA compliance [is] a major goal. We do lots of due diligence on a daily basis with third parties.”



## Tactical Compliance Implementers | Respondent Profiles

The **Tactical Compliance Implementers** believe their companies' exposure is moderate to high. Twenty-seven percent of respondents fell into this category. They attribute importance to the UK Bribery Act and the FCPA and typically require third parties to complete a questionnaire listing disclosure. They report a well-defined process dedicated to protecting against bribery risk specifically and tend to think that they are ahead of the competition in anti-bribery compliance. They also boast in-place procedures for conducting anti-bribery-related training.

### In Their Own Words

"For FCPA compliance, we do periodic risk assessments."

"[Our FCPA compliance program is] adequate, but an area we can improve on for sure. We just have to make sure we have a robust program in place - no gaps, no holes."



## Third Party Focused | Respondent Profiles

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The **Third Party Focused** believe their companies have moderate to limited exposure to bribery risk, moderate concern for exposure, but a strong focus on third party risk management. These companies (20 percent) are more likely to have procedures for conducting anti-bribery-related training and protocols to analyze their bribery risk for commercial relationships. They tend to require third parties to certify adherence to their own codes of ethics, and have a code of conduct for third parties. They have a gifts and entertainment policy for vendors, agents, and other third parties, and do not permit facilitating payments to government officials under any circumstances. They think that if compliance is handled well, it can be both defensive and confer a competitive advantage.

### In Their Own Words

“[We use] a due diligence process for vetting [third parties] and their sub-agents, and FCPA due diligence with all contractors.”

“We are keeping our partners informed and aware of rules and regulations.”

“We are moving into third world area and the risks are greater. We need to evaluate all the levels of contractors we use.”



## Compliance Skeptics | Respondent Profiles

The **Compliance Skeptics** account for 16 percent of respondents. They believe their companies' exposure to bribery risk is low to moderate, have low to moderate concern for exposure, yet have strong preparatory measures in place. They do not have protocols to analyze bribery risk for commercial relationships, nor do they attribute great importance to the UK Bribery Act and the FCPA. However, these companies do partner with foreign companies to conduct business, but typically do not require third parties to complete a questionnaire listing disclosure, such as affiliations with government officials.

### In Their Own Words

"We have not put a strong program in place."

"It is not a central focus now."

"Our experience with [third parties] - we've had no issues, no problems. That's my litmus test. We haven't caught anything going awry."

Regarding documenting and communicating red flags: "Has not happened yet."



## Unconcerned | Respondent Profiles

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The **Unconcerned** characterized their companies' exposure to anti-bribery laws as limited or non-existent. These companies, 22 percent, expressed less concern about their risk exposure and limited strategies to combat bribery risk. Typically, they do not have procedures for conducting anti-bribery-related training. Often they do not require third parties to certify adherence to their own code of ethics. They tend not to screen targets of their third parties' acquisitions. They are not very likely to require the third parties they deal with to complete a questionnaire listing disclosure, such as affiliations with foreign officials. Often they describe compliance as purely defensive in nature, rather than something that can confer a competitive advantage to their companies. All of this is true despite the fact that they are all multinationals with significant foreign operations.

### In Their Own Words

“Are companies requiring third parties to certify compliance? How?”

“We haven't had any problems. Either we're good or we're lucky.”

“[An FCPA compliance program] has been on the radar for a while.”

## Anti-Bribery Processes Documentation | Respondent Profiles

The table below shows how each profile manages bribery risk. The Compliance Activists are much more likely than companies in other market segments to have a well-defined, documented process dedicated to protecting against bribery risk (95 percent). In contrast, Third Party Focused companies and Compliance Skeptics rarely say that they have a well-defined, documented process in place. Instead, their approach is part of a documented process focusing on various compliance risks (95 percent and 71 percent, respectively), not just bribery risk.

### Which One of the Following Best Describes How Respondent's Company Manages Bribery Risk

	All Respondents	Compliance Activists	Tactical Compliance Implementers	Third Party Focused	Compliance Skeptics	Unconcerned
Company has a well-defined, documented process dedicated solely or largely to protecting against bribery risk	39%	95%	83%	5%	5%	54%
It is a part of a documented process focusing on various compliance risks	51%	5%	17%	95%	71%	34%
It has a largely informal, undocumented process	7%	--	--	--	18%	9%
My company does not specifically manage bribery risk	2%	--	--	--	6%	3%

## Anti-Bribery Policy | Respondent Profiles

Third Party Focused companies and Compliance Activists tend to make use of various compliance enhancing tools at their disposal. For example, they are more likely to design their anti-bribery policies to meet specific laws, share remedial efforts with their boards of directors, review them with outside experts, update them, and make every employee at the company aware of them. Compliance Skeptics do less of everything, with the exception of making employees aware of the company's anti-bribery policies.

### Percent of Respondents Whose Companies' Anti-Bribery Policies Are Doing the Following

	Among Those Who Have Process in Place	Compliance Activists	Tactical Compliance Implementers	Third Party Focused	Compliance Skeptics	Unconcerned
They are designed to meet the requirements of specific laws, such as the FCPA and UKBA	96%	96%	96%	100%	82%	100%
The remedial efforts of your program are shared with the Board of Directors	86%	67%	100%	100%	65%	92%
They have been reviewed by third parties with expertise in this area	82%	63%	82%	95%	82%	86%
They been updated since inception	90%	81%	100%	91%	76%	95%
Every employee at your company is aware of the anti-bribery policies	74%	59%	86%	91%	65%	70%

## Perceived Exposure to Bribery Risk | Respondent Profiles

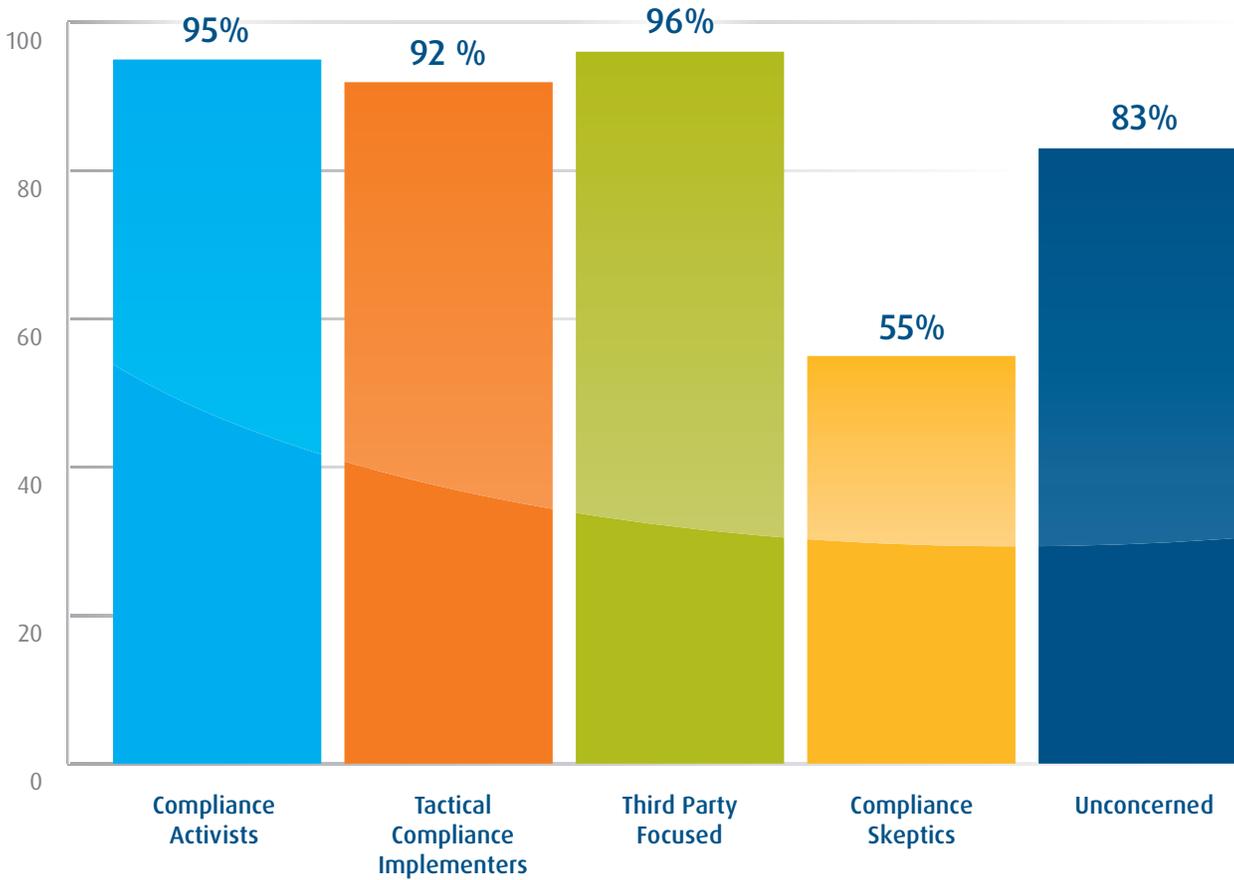
Levels of concern about anti-bribery risk exposure among Compliance Skeptics and the Unconcerned range from limited to no significant exposure at all. In contrast, more than two-thirds of Compliance Activists believe they are highly exposed (68 percent) or at least moderately exposed (27 percent).

### Perceived Exposure to Risk Related to Compliance with Anti-Bribery Laws

	All Respondents	Compliance Activists	Tactical Compliance Implementers	Third Party Focused	Compliance Skeptics	Unconcerned
Our company is highly exposed to risk related to anti-bribery regulations	24%	68%	41%	7%	--	7%
Our company is moderately exposed to risk related to anti-bribery regulations	45%	27%	51%	57%	23%	52%
Our company has only limited exposure to risk related to anti-bribery regulations	19%	5%	5%	29%	14%	40%
Our company has no significant exposure at all	12%	--	3%	4%	64%	--

## Anti-Bribery Training | Respondent Profiles

Compliance Activists (95 percent), Third-Party Focused (96 percent), and Tactical Compliance Implementers (92 percent) reported having formal anti-bribery-related training and communications procedures in place. In contrast, 83 percent of the Unconcerned and 55 percent of Compliance Skeptics said they had no such procedures in place.





## Concern About Anti-Bribery Regulation | Respondent Profiles

When it comes to the potential impact of bribery risk, Compliance Activists reported the highest levels of concern among all respondents. Ninety-six percent of Compliance Activists said they were either extremely or very concerned, compared with 27 percent of Compliance Skeptics and 30 percent of respondents in the Unconcerned profile.

### Degree of Concern about Risk Related to Anti-Bribery Regulation

	All Respondents	Compliance Activists	Tactical Compliance Implementers	Third Party Focused	Compliance Skeptics	Unconcerned
Extremely concerned	12%	23%	22%	--	--	10%
Very concerned	42%	73%	49%	43%	27%	20%
Somewhat concerned	33%	5%	24%	46%	27%	57%
Not very concerned	11%	--	5%	11%	27%	13%
Not concerned at all	2%	--	--	--	14%	--

## Protective Measures Against Third Party Risk | Respondent Profiles

Compliance Activists employ a number of measures to manage third party risk, ranging from a code of conduct with third parties to requiring third parties to complete questionnaires and policies covering facilitating payments to government officials. The opposite is true for respondents in the Unconcerned profile. They are the least likely among all respondents to require third party questionnaires (33 percent) or require third parties to certify adherence to a code of ethics (27 percent).

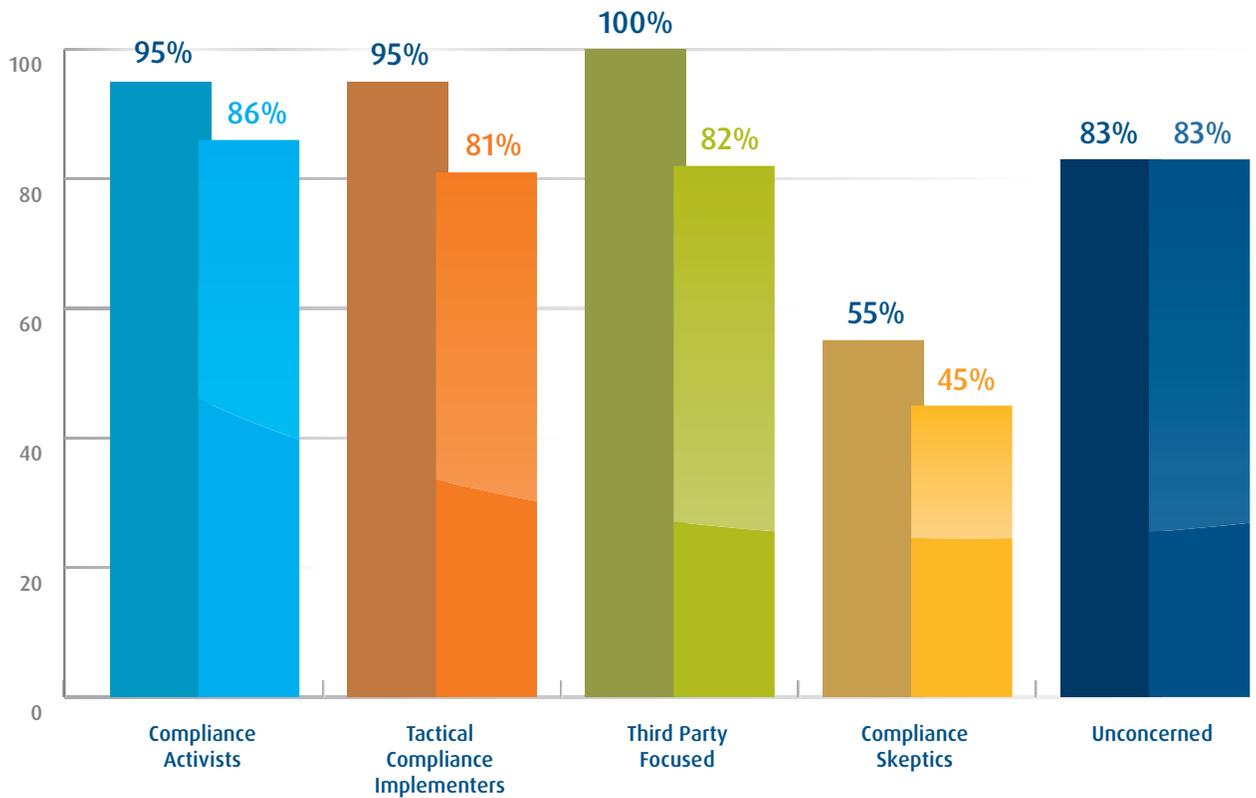
### Measures Adopted to Protect the Company Against Third Party Risk

	All Respondents	Compliance Activists	Tactical Compliance Implementers	Third Party Focused	Compliance Skeptics	Unconcerned
Company code of conduct has provisions for third parties	73%	86%	84%	93%	59%	43%
Require third parties to complete a questionnaire listing disclosure, such as affiliations with foreign officials	71%	100%	95%	82%	41%	33%
Require third parties to "certify" adherence to your company's code of ethics or some similar business practice statement	72%	95%	92%	89%	55%	27%
Verify that each third party adheres to your company's code of ethics or some similar business practice statement	65%	86%	78%	71%	45%	43%
Confirm that each third party is free from potential sanctions pertaining to compliance with anti-bribery regulation	73%	100%	89%	75%	41%	57%
Have a policy with respect to providing facilitating payments to government officials	89%	100%	92%	90%	59%	91%
Have a policy with respect to providing facilitating payments to government officials	89%	93%	96%	100%	59%	92%



## Third Party Due Diligence | Respondent Profiles

Compliance Skeptics exhibit the least rigorous due diligence practices when vetting external relationships. Fifty-five percent of Compliance Skeptics check public records and litigation records, and 45 percent conduct database checks. In contrast, 100 percent of Third Party Focused respondents check public records and 82 percent conduct database checks.





## In Their Own Words

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### What Executives Say They Are Doing to Protect Their Companies

“We launched a role-based training program for all involved employees. Financial controls have been enhanced, and we have instituted an audit program related to our overall business.”

“Background checks on third parties and training, internal and external with vendors.”

“Education and training are most important, then auditing and remediation. The lifecycle of compliance is those four things. Our Audit Committee does quarterly audits. They’re part of the Board of Directors.”

“Thorough analysis of payments and discounts—total transparency of all disbursements. Supplementary training with e-learning and webcasts and using reminder bulletins to reinforce policies.”

“We have a few small seminars and some training that goes on, we have regulations on the government side we adhere to. If the government caught wind of our not complying, we’d be in a heap of trouble, and people are aware of this. That awareness is the best deterrent—they know we’re looking at this angle.”

“We have 13 components to our program. There is an established “tone from top” management. We have robust training. We have robust monitoring and controls in place.”

“First, our systems and processes—we have great accountability controls in our accounting systems. Also, our audits and reviews—to see that people are doing what they’re supposed to, when they’re supposed to. We’re very hands-on with our legal visits by internal auditors—they’re both doing and checking.”

“We have an active program and department for BSA—Bank Secrecy Act—and for AML to catch criminal activities, which has a tangential benefit in terms of bribery. Employees are trained on policies and on release of confidential information regulations.”

“Whenever we engage an agent or direct employee, if they’re going to be soliciting business, we have a one-on-one where they sign off and test on our code. So we have a level of comfort that they’re made aware and have the knowledge and training.”

“External financial audit annually, external compliance audits periodically—practices implements per their suggestions. We’re implementing our conflict of interest policies on the physician side and getting the surgical vendors involved.”

## In Their Own Words (continued)

### Why Executives Have Adopted Rigorous Compliance Programs

“Increased global enforcement made us more intent on strengthening our program. So many countries are working together now around the world—you have to keep up.”

“Given how Dodd-Frank has revised current regulations and added new ones, whistle-blower for instance, the Audit Committee expects some emphasis on compliance. I meet with them twice a year—just increased emphasis.”

“Health care legislation changes rapidly, ownership of hospitals, billing issues, what you can bill for and what you can’t. We have to be up on this.”

“It has evolved. We’ve elevated enterprise compliance. The business level compliance handles day-to-day but enterprise level connects with board.”

“We provide access and maintain a database on all third party reps and partners. These electronic resources are available to the entire organization. Automation for education and compliance—everything on-line. It is also multilingual.”

“We are focused on it specifically—have made FCPA compliance a major goal. [We do] lots of due diligence on a daily basis with third parties.”

“I am not sure that we have anything that differentiates us besides practices toward AML. These are very strong, but we are not specifically differentiating ourselves in anti-bribery. We don’t have a committee for it.”

“The fact that we focus on employees is our strength. You can have policies but unless the employees own the policy, it’s not effective. Empower employees—compliance is everybody’s job. You need to be constantly marketing your ethics to employees.”

“Using concrete tactics to avoid problems in cultural expectations of gift-giving in Latin America. Implementing strong controls.”



## In Their Own Words (continued)

### Reasons Executives Gave Why They Think Their Anti-Bribery Efforts Are Adequate or Inadequate

#### Adequate

“So far, we’ve been successful in catching problems early. Awareness is high throughout the company. We do something with reports—we follow up on every lead.”

“[Adequate but] an area we can improve on for sure. We just have to keep up with the literature and make sure we have a robust program in place—no gaps, no holes.”

“It’s more often than not the scope of business that determines the extent of due diligence. We deal with known entities, we’re a known entity—it’s a tight-knit community and there are no secrets in our business.”

“We’re constantly monitoring our customers. We’re not allowed to be in business in certain countries because of regulations, so we have procedures that will bring expansion of existing customers to our attention.”

“We have a risk-based approach. My deals with third parties are restricted to the service they provide. If we’re buying computers, why would we bother to look into this?”

#### Inadequate

“It’s encouraged from a Comptroller level but not formalized. When there have been embarrassments or complaints, the evidence has shown that we did our due diligence, although the data wasn’t always acted upon on a deal level.”

“For the risks we’ve been exposed to in the past, our efforts weren’t unreasonable but we should ramp up training overseas.”

“We need to develop a program to work more closely on due diligence and increase our staff.”



## In Their Own Words (continued)

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### How Executives Say They Check to Ensure Third Parties Are Compliant

“Legal firms do due diligence for us. It depends on the entity—at the front end of the relationship, we do deep digging.”

“We’re not auditing them all the time. But if we see a lack of reporting or if there is a hint of a problem, we bring in an outside audit.”

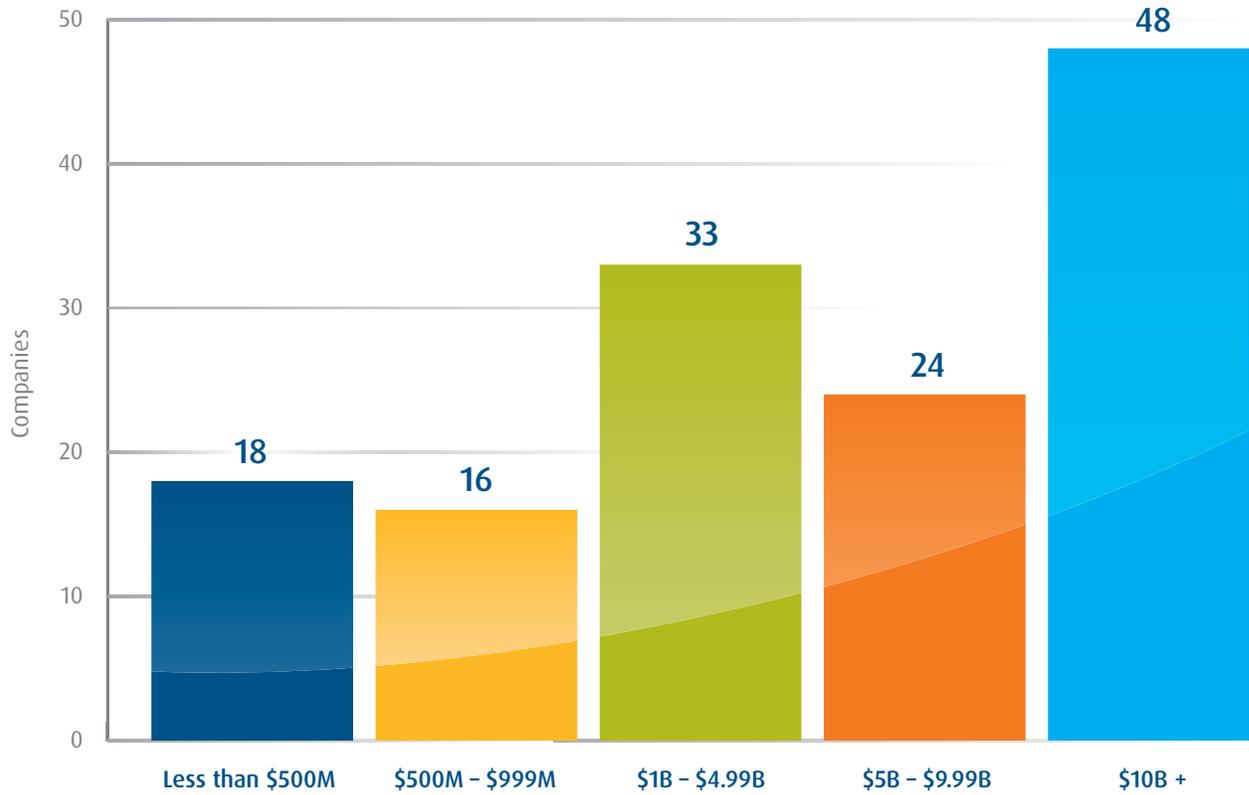
“Legal firms and accounting firms, depending on the relationship and the size of the contract.”

## Industry by Respondent Profile | Appendix

	Financial Services	Energy	IT/Telecomm	Pharmaceuticals	All Other
Compliance Activists	8%	20%	21%	23%	20%
Tactical Compliance Implementers	19%	33%	11%	54%	37%
Third Party Focused	23%	27%	21%	-	20%
Compliance Skeptics	23%	13%	18%	8%	7%
Unconcerned	27%	7%	29%	15%	17%

## Company Revenue in 2010 | Appendix

### 2010 Annual Sales



## Respondent's Title | Appendix

On average, the executives who took part in the study have been employed at their companies for approximately nine years and have been in their current positions for six years. As senior, tenured representatives of their organizations, they possess deep knowledge of their companies and their compliance activities in particular. In most cases, either the chief compliance officer (38 percent), compliance department (21 percent), or the general counsel's office (36 percent) was said to have the primary responsibility for drafting compliance policy for the company.

	%
<b>Compliance Titles (Net)</b>	<b>69%</b>
Chief Compliance Officer	33
Director of Compliance	17
VP Compliance	8
Chief Compliance Manager	4
SVP & Chief Risk Officer	4
Head of AML & FCPA	2
Head of Internal Audit	1
<b>Legal Titles</b>	<b>21%</b>
VP & General Counsel	19
Assistant General Counsel	2
<b>Executive Titles (Net)</b>	<b>3%</b>
VP Operations	2
Chief Operating Officer	1
<b>All Other</b>	<b>7%</b>