

# COMPLIANCE WEEK

THE LEADING INFORMATION SERVICE ON CORPORATE GOVERNANCE, RISK AND COMPLIANCE

## Global Integrity Survey: What CCOs Worry About

By Melissa Klein Aguilar — September 22, 2009

If worries about the F-word—fraud—are keeping you and your compliance department awake at night, you're not alone.

Not surprisingly, fraud risk is the top concern among more than 150 chief compliance officers polled by Compliance Week and Integrity Interactive for the *2009 Global Integrity Survey*, which provides a comprehensive look at compliance operations at global companies today. Twenty-four percent of respondents cited fraud as their highest risk; its close cousin, bribery, ranked second at 19.3 percent.

The Global Integrity Survey polled 157 ethics and compliance executives at corporations around the world, asking everything from how they structure their ethics and compliance function to how integrity factors into executive compensation to what ethical risks their companies face. The complete survey is available online (see box at right), and Compliance Week will offer a series of articles this month recapping the major findings.

After fraud and bribery, security issues (including protection of proprietary information, privacy, and theft) were another large issue; 17.2 percent of respondents cited it as their primary worry. Environmental health and safety issues and human resources issues ranked lowest among corruption concerns, with only 4 percent ranking them as their biggest corruption risk.

Specifically, bribes to third parties—resellers, agents, distributors, joint-venture partners, and the like—are giving CCOs considerable heartburn. One-third of respondents cited such bribes (typically to win a government contract) as their biggest risk of “improper payment”; another 23 percent cited inappropriate gifts, which usually are just bribes in a non-cash format. Political and charitable contributions ranked the lowest as major worry points.

Scott McLester, general counsel at Wyndham Worldwide Corp., noted that educating employees on what constitutes an improper payment can be quite difficult, especially when dealing with cultures and business practices that may differ vastly around the world.

“The obstacles are significant, including the fact that non-U.S. based employees might have unique cultural practices that can be at odds with U.S. law,” he says. “It can be more

difficult to perform the necessary due diligence on third-party vendors and their suppliers as companies expand their reach into new markets.”

Another complicating matter: the definition of an improper payment continues to expand, at least in the minds of regulators, said Robert Luginbill, head of global compliance strategy and risk management at Eli Lilly Co. “That drives increased risk and in some cases, has involved personal liability on the part of senior company officials, which generates higher visibility,” he says.

### **Communication Risks**

Aside from corruption risks such as fraud and bribery, compliance departments also face considerable risks in their day-to-day operations. Topping the list were worries about poor communication and information—that is, fears that companies aren’t sending or receiving the proper information to educate workers about integrity or to monitor behavior effectively.

Eighteen percent of respondents cited inadequate communication regarding their integrity programs across the enterprise; fears about information quality placed second at 15.4 percent; and nearly 11 percent cited undeveloped or inconsistent policies and procedures to prevent and detect problems as another key operational risk area.

“Employees can feel overwhelmed by information,” says William Deckelman, general counsel of Computer Sciences Corp. “If ethics is not a burning issue driven by executive management, there will be a tendency not to communicate often enough or strongly enough on the topic.”

Another 9.8 percent cited a related concern that reporting of anonymous issues from employees is inadequate, not trusted or under-used. The same number cited a culture that’s misaligned with strategy, ethics that aren’t fostered or performance that’s unsuitably incentivized.

### **Risks at Remote Sites**

One-quarter of the compliance executives surveyed cited deviation from or disregard for company business practices as their top worry about remote sites, followed by a lack of integration of off-site employees into the company’s broader corporate culture (21 percent). An uncertain or unknown regulatory environment also ranked as a major concern, cited by 18 percent.

Just over half of those surveyed (51 percent) reported no integrity issues during mergers and acquisitions in the last three years. However, that number includes companies that haven’t conducted any M&A activity during the period.

Of the remainder who have encountered issues during a deal, 24 percent of respondents said they discovered an integrity issue during due diligence.

Jerome Okarma, general counsel at Johnson Controls, says integrity issues “are becoming more and more common in M&A, especially in connection with deals in Russia, India, China, and other fast-growing parts of the world.”

Nearly 19 percent of compliance executives said their firm mitigated an issue through representations, warranties, covenants, or indemnification. Notably, some 15 percent reported that they abandoned a deal because integrity issues posed too much trouble. The same number said they forced the target company to resolve corporate or individual liability issues with regulators before closing the sale.

#### GLOBAL CORRUPTION RISKS

**The Chief Compliance Officers surveyed by Compliance Week and Integrity Interactive ranked the top three risks to their global integrity programs:**

<b>Risk:</b>	<b>Rank 1</b>	<b>Rank 2</b>	<b>Rank 3</b>
Fraud	24.1%	21.2%	16.5%
Improper Payments	19.3%	14.4%	18.0%
Security Issues	17.2%	13.7%	12.9%
Acquisitions	9.0%	6.8%	5.0%
Conflicts of Interest	8.3%	15.8%	14.4%
Export Control Regimes	6.9%	9.6%	6.5%
Sourcing	4.8%	4.1%	8.6%
Environmental Health and Safety	4.1%	4.1%	2.2%
HR Issues	4.1%	10.3%	12.9%
Other	2.0%	0.0%	2.9%

*Percentage totals may not equal 100%.*

**Source:** [2009 Global Integrity Survey](#) (Sept. 9, 2009).

#### IMPROPER PAYMENT CONCERNS

The surveyed Chief Compliance Officers ranked their top three concerns regarding improper payments:

Concern:	Rank 1	Rank 2	Rank 3
Payments to Third Parties	34.1%	12.4%	8.9%
Inappropriate Gifts	23.0%	34.9%	19.5%
Direct Bribes	18.5%	8.5%	11.4%
Inappropriate Entertainment	11.1%	29.4%	27.6%
Company-Financed "Business Trips"	5.9%	9.3%	21.1%
Unlawful Political or Charitable Contributions	5.2%	4.7%	8.2%
Other	2.2%	0.8%	3.3%

*Percentage totals may not equal 100%.*

**Source:** [2009 Global Integrity Survey](#) (Sept. 9, 2009).

#### REMOTE SITE CONCERNS

The surveyed Chief Compliance Officers ranked their top three concerns regarding remote sites:

Concern:	Rank 1	Rank 2	Rank 3
Deviation of (or Disregard for) Company Business Practices	24.6%	17.4%	18.2%
Lack of Integration	21.1%	20.3%	17.4%
Uncertain or Unknown	18.3%	6.5%	15.2%

Regulatory Environment			
Misappropriation of Funds	10.6%	8.0%	6.1%
Poor Accounting Systems and Controls	9.2%	15.9%	12.1%
Environmental, Health, or Safety Issues	4.9%	6.5%	3.8%
Books and Records Violations	4.2%	10.9%	15.2%
Child or Unfair Labor Practices	2.1%	0.7%	0.8%
Favoritism	1.4%	6.5%	0.8%
Retaliation	1.4%	2.9%	3.0%
Lack of Proper Third-Party Employment Contracts	0.7%	2.9%	6.8%
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<i>Percentage totals may not equal 100%.</i>			
<b>Source:</b> <a href="#">2009 Global Integrity Survey</a> (Sept. 9, 2009).			

**M&A AND INTEGRITY**

**Regarding mergers and/or acquisitions, in the past three years, the surveyed Chief Compliance Officers say they have:**

Action Taken:	Percent of Respondents:
<b>NA:</b> We have not conducted M&A, or have not encountered integrity-related issues during M&A	51.0%
<b>Discovered</b> an integrity issue during due diligence	24.2%
<b>Mitigated</b> an undiscovered integrity issue through reps and warranties, covenants, and/indemnification	18.5%

<b>Forced</b> the Seller to resolve corporate and/or individual liability issues with regulators before closing	14.6%		
<b>Abandoned</b> a deal because integrity issues created outsized risks	14.6%		
<b>Altered</b> the price of an acquisition due to an integrity issue discovered during due diligence	7.0%		
<b>Entered</b> into post-closing agreements with regulators	3.2%		
<i>Percentage totals may not equal 100%.</i>			
<b>Source:</b> <a href="#">2009 Global Integrity Survey</a> (Sept. 9, 2009).			

Compliance Week provides general information only and does not constitute legal or financial guidance or advice.