

Fraud and corruption – the easy option for growth?

Europe, Middle East, India and Africa Fraud Survey 2015



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Foreword

The cost of unethical behavior has never been higher. Headlines such as “Bank pays record fine,” “US\$2.6 billion settlement agreed” and “€1 billion bail ordered” continue to make the front pages of the financial press.

Businesses are facing increasingly complex challenges to growth – market volatility, geopolitical instability, oil shocks and economic sanctions. But businesses are also under tremendous pressure to achieve this growth. In such circumstances, is unethical growth the easy option for growth? The results of our survey of 3,800 respondents across 38 countries continue to show the significant risk of individuals acting unethically. Respondents display the human tendency towards rationalization of behaviors, ethical or not.

The risks of fraud, bribery and corruption remain widespread and we continue to see businesses failing to mitigate these risks effectively.

- ▶ More than half of all respondents, and 61% of respondents in rapid-growth markets, believe that bribery and corruption is widespread in their country. And yet 42% of respondents report that their company does not have an anti-bribery policy in place or didn't know if there was one.
- ▶ Thirty-seven percent of respondents believe that the financial performance of businesses in their markets is often overstated. And yet 20% of respondents feel their management team at head office does not understand the business environment that they face.

We know that tip-offs are the most common way that fraud, bribery and corruption are uncovered. And yet almost a quarter of respondents say their company does not have a whistle-blowing hotline.

We know that training is a critical method for communicating anti-corruption policies to employees, and yet over a third of respondents have not been trained.

Given the interdependencies in today's markets, it is extremely likely that somewhere you are doing business with a company that is not effectively managing the risks of fraud, corruption and other unethical business conduct.

That's risky business. The pressure to achieve growth and develop new revenue opportunities is driving teams and individuals toward these risks and pushing them to unethical behavior themselves.

Is unethical behavior the inevitable outcome of pressure to achieve growth in an extremely challenging market? Our survey results suggest not. Good compliance, and good ethical standards, can – and in fact do – go hand in hand with revenue growth.

The results show that businesses that have experienced revenue growth in the last two years are more likely to be seen as ethical by their employees, not only at head office but also across operations in different countries. We also see that these businesses are more likely to have effective compliance policies and procedures in place and management is more engaged in monitoring compliance and risk mitigation.

Do ethical conduct and a strong focus on compliance drive growth? These results tell us that good compliance is not a barrier to growth or a burden to increased profitability. It is, in our view, a requirement for sustained success.

Financial services organizations in particular know the cost of non-compliance. But what our survey tells us about these organizations is that they are responding. They have invested in compliance and our results show that this investment is having a positive effect. The survey responses suggest that these companies are doing a better job at establishing anti-bribery policies and are benefiting from strong senior management commitment to ethical standards.

The commitment of senior leadership remains the most critical factor in changing an organization's culture. It has become common to talk about tone through the middle – but senior management still has much to do. Our results show that they overestimate their impact in terms of how effectively they are communicating the importance of high ethical standards.

An effective and sustainable integrity and compliance program requires significant and sustained commitment from the top. Financial services organizations have shown how change can be initiated, but these businesses also know how much investment has been required to achieve this.

For most businesses, the challenging economic market conditions they face are unlikely to change significantly in the near future. Uncertainty caused by political developments – including elections in key markets as well as conflict and social unrest – will continue to present a challenge. Sanctions on some countries may be lifted, but doing business in these jurisdictions will be complicated and risky. Meanwhile, regulators and enforcement agencies are looking to secure more resources and are cooperating across borders to take action against businesses that have achieved growth through fraud or corruption. Operating in the grey areas of ethical business conduct might be tempting for some. However, it is not a strategy for delivering sustainable growth.

We hope that this study contributes to further dialogue on these important matters, and we thank all of the respondents for their contributions.

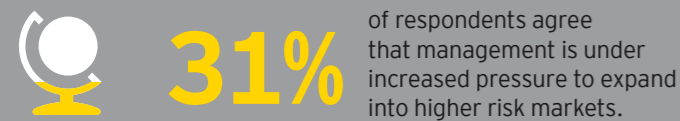


David Stulb
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Executive summary

Our survey of 3,800 respondents across 38 countries confirms that the current business environment is presenting significant challenges. The impact of market volatility has been compounded by geopolitical instability and big drops in the oil price. Businesses are facing more complex restrictions on the way in which they do business with sanction regimes changing. Complex risks – such as cyber crime – have the potential to significantly disrupt operations.

Nonetheless, our survey results show that most businesses are still expected to deliver new revenue growth. The question is – what risks are businesses willing to take to achieve this growth?



Fraud and corruption – the easy option for growth?

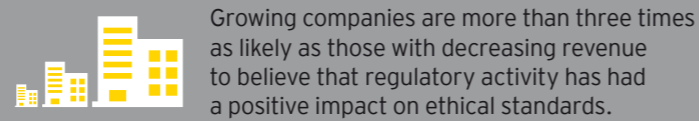
Rapid-growth markets continue to be seen as a route to additional revenues. But in these markets, bribery and corruption remain a significant risk. Sixty-one percent of respondents in these markets feel that corruption is widespread. Our results also show a significant minority are able to justify unethical behavior – such as offering cash payments and gifts – to help their business survive.

Many respondents remain willing to take actions that could result in fraud. Thirty-seven percent of respondents agree that companies in their country often report their financial performance as better than it is.

- ▶ Twelve percent say requesting suppliers delay invoicing can be justified.
- ▶ Fourteen percent say booking revenue from rebates with suppliers early can be justified.
- ▶ Twenty-seven percent say negotiating retrospective rebates with suppliers can be justified.

More than one in five senior management respondents were aware of the early recognition of revenue in the last 12 months. The same proportion had heard of underreporting of costs in their company during the last 12 months.

Another specific concern highlighted by our results is that the risk of unethical practices is higher in recently created business units, irrespective of the market. When asked whether offering cash payments is justifiable to help a business survive, new business unit respondents are more than 50% more likely to agree, compared with respondents from longer-standing business units.



Achieving growth and managing risks

The results of our survey send a clear message: ethical business and good compliance go hand in hand with growth.

Some still see compliance as a burden – one-fifth think following anti-bribery policies very closely would harm their competitiveness. The results, however, show a clear correlation between companies that have experienced revenue growth and those that are seen by respondents as being “ethical.”

Respondents that report revenue growth in their business in the past two years are more likely than those from businesses that have reported decreased revenue to:

- ▶ Rate their company’s ethical standards as “good”
- ▶ Be confident that operations in different countries meet the same ethical standards
- ▶ Believe that regulatory activity in their sector has had a positive impact on both ethical standards and their results

Respondents that report revenue growth in their business in the past two years are more likely than those that report decreased revenue to say that their businesses have effective compliance policies and procedures in place. According to the results, they are:

- ▶ More likely to have an anti-bribery policy and code of conduct and their staff are more likely to have attended anti-bribery training
- ▶ More likely to have clear penalties for violating anti-bribery or anti-corruption (ABAC) policies
- ▶ Significantly more likely to be perceived as likely to support people reporting fraud or corruption

The results confirm our view that, far from being a barrier to growth, effective compliance is a requirement for sustained success.

Good practice isn’t spreading fast

If good compliance is a requirement for sustained success, what does it look like?

Policies are a starting point. But 42% of respondents say that their company does not have anti-bribery policies or they are unaware of them. Even in developed markets, this result is 41% – very high given how much emphasis has been placed on policies by regulators and other stakeholders. On the positive side, where policies are in place, 91% say that senior management has strongly communicated its commitment to them.

Anti-bribery training is a critical method for communicating expectations to employees. So it should be concerning that 37% of respondents have not received any. When training does happen it seems to be effective: almost three-quarters of the respondents who attended training found it useful for their role.



Moving beyond the basics

Only half of respondents feel their management team at head office understand the business environment that they face. This can result in unrealistic expectations and pressure. Simple steps – such as site visits – can help. But less than half of respondents report that members of the management team visit local facilities at least once every six months.

The importance of other communication channels such as whistle-blowing hotlines is therefore clear. Yet almost a quarter of respondents say their company does not have such a reporting channel. Of the respondents who said their companies have a hotline, 42% think that a report is always followed up.

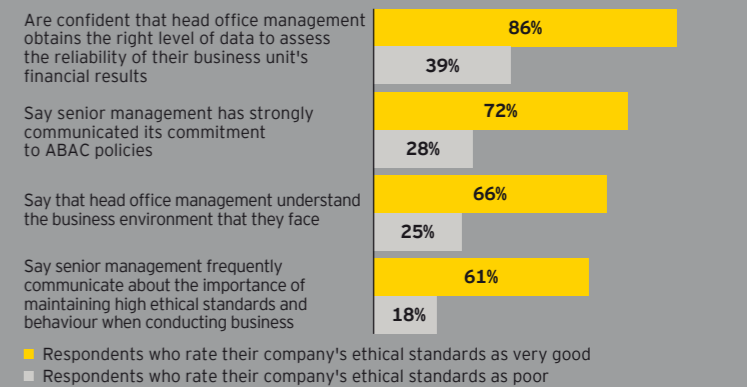
Our results also reflect the fact that the financial services sector is under greater regulatory and public scrutiny. Financial institutions have been more active in their compliance efforts than businesses in other sectors – but that there is still more for them to do.

Commitment of leadership critical to change

Management clearly has a fundamental role in bringing about change.

What we see in the results is that senior managers may be overestimating their impact. The results suggest that senior managers think they are better than they actually are at communicating the importance of high ethical standards. Forty-four percent of senior management respondents say they frequently communicate this, but only 30% of other employees agree.

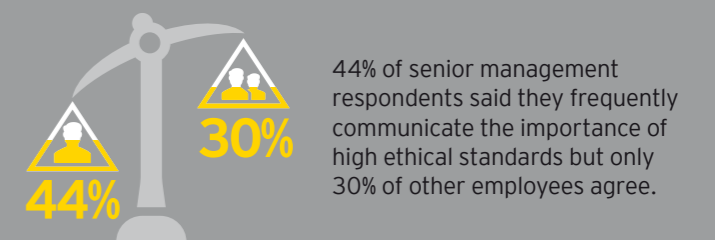
Figure 1
Senior management engagement key to culture



Base: Respondents who rate their company's ethical standards as very good (999); Respondents who rate their company's ethical standards as poor (554)

Overall, this year’s survey results deliver a strong message of support for those performing compliance-related roles. There are several examples of good practice – such as the usefulness of anti-bribery training.

Yet, an effective and sustainable integrity and compliance program requires significant investment. The responses from individuals in the financial services sector, for example, show this investment can move organizations in the right direction, but respondents in these businesses also know how much investment has been required to achieve this. For boards and shareholders, the message is clear: good compliance is not a barrier to growth. Nor is it optional. In the current environment, it is a critical component to sustain success for the organization, its employees and shareholders.



The future business environment is likely to be even tougher – with further uncertainty resulting from political developments and shifting economic sanctions. This could drive fraudulent and corrupt behavior, but as regulatory enforcement increases, the cost of such behavior will be even higher. Effective compliance will be fundamental to achieving sustainable business growth.

Volatility – a driver of corruption?

For many businesses, optimism arising from economic recovery has been overshadowed by the negative effects of volatility and uncertainty. For many companies, increased pressure on margins and balance sheets has resulted from a collapsed oil price and geopolitical factors, including economic sanctions and continued concerns over the stability of the Eurozone.

In this environment, companies are still expected to deliver significant revenue growth.

Bribery and corruption meanwhile remains a significant risk, especially in rapid-growth markets, where 61% of respondents see corruption as widespread. Fraud is an ongoing challenge, with 37% of respondents believing that the financial performance of businesses in their markets is often overstated – and cost pressures are coming from all directions.

Growth – was everyone too optimistic?

Our survey shows that, for a majority of respondents, economic growth has been slower than expected. Almost 60% of respondents identify this slower-than-expected rate as challenging their specific business's growth or success.

Figure 2
Slower-than-expected economic growth

		% applies	
		Developed	Rapid-growth
Slower economic growth than expected in our country	58%	54	62
Political instability in some of the countries we trade in	32%	25	41
Uncertainty about our ability to trade due to economic sanctions or export controls	24%	20	30

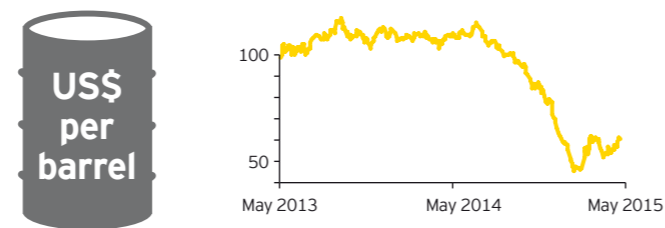
Q: Are any of the following increasing the challenges for the growth or success of your business?

Base: All respondents (3,800); Developed (1,600); Rapid-growth (1,100)

There are also several other strategic risks that are presenting challenges to businesses:

- ▶ One-third of respondents (41% in rapid-growth markets) identify political instability as increasing the challenges.
- ▶ A quarter of respondents identify uncertainty about their ability to trade due to economic sanctions or export controls as increasing the challenges.
- ▶ The sharp decline in oil prices – of more than 40% between May 2014 and May 2015 – has created both winners and losers, and for countries and sectors heavily dependent on oil revenue, the negative impact has been huge.

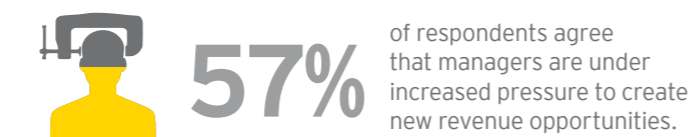
Figure 3
Collapsed oil price



Source: Europe Brent Spot Price FOB data, from US Energy Information Administration

Deliver ... or else

Senior management is often working to forecasts based on a stable operating environment and optimistic expectations of future growth. In many cases, targets are unachievable. With nearly 60% of managers under increased pressure to identify new revenue opportunities, the options for growth may be hard to find. Continued pressure could result in actions that expose businesses to significant fraud and bribery risks.



New businesses – new risks

Investment in new and growing markets is an obvious solution to the pressure for new revenue.

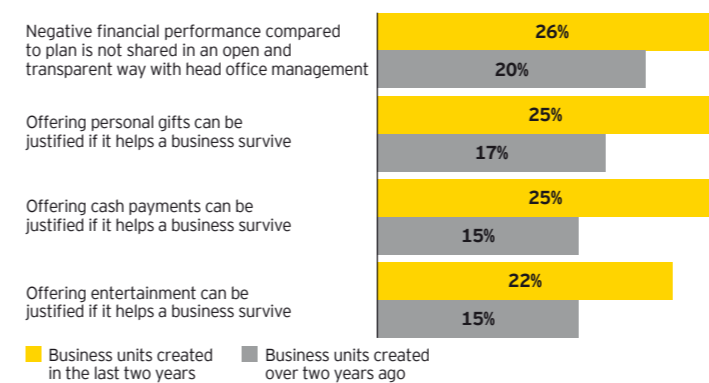


Yet our respondents in these markets are also experiencing slower-than-expected growth. For example, 75% of respondents in Africa acknowledge slower-than-expected economic growth as a challenge.

Our results also highlight a specific concern regarding new business units. The pressure on these businesses to deliver growth is intense.

These new business units appear more likely to consider bribery an acceptable response to this pressure. When asked whether offering cash payments is justifiable to help a business survive, new business unit respondents are more than 50% more likely to agree, compared with respondents from longer-standing business units.

Figure 4
New business units – greater risk?



Base: All respondents (3,800); Business units created in last two years (936); Business units created over two years ago (2,802)

Adding to this concern is the risk that poor results are less likely to be reported by new business units – and that unethical practices are going unnoticed:

- ▶ Twenty-six percent of respondents from new business units state that negative financial performance is not shared with head office in an open and transparent way.
- ▶ Twenty-one percent of respondents agree that unethical practices in their business often go unnoticed by head office.



India – increased regulation may not dampen growth

Regulation in India is on the rise. Recent regulatory changes include:

The Companies Act 2013, aimed at creating a better business environment with robust corporate governance standards.

The Lokpal Act, which received the President's assent in January 2014, created an independent entity to investigate allegations of corruption among government officials.

Corporate governance norms for listed companies outlined by the Securities and Exchange Board of India, including making a whistle-blowing policy mandatory.

More than 60% of respondents in India agree that regulatory activity in their sector has had a positive impact on ethical standards. Improvements have been reflected in Transparency International's 2014 Corruption Perceptions Index in which India moved up nine places to rank 85th.

Yet this increased regulation does not appear to have dampened growth. India has continued to experience significant growth.

5% average growth since 2012 (slightly under 2012 forecasts for the same period of over 5.5%)¹. Growth in the fiscal year 2015-16 is expected to be 7.5%².

89% of respondents in India reported that revenue had increased over the last two years.

96% of respondents in India were optimistic about India growth opportunities.

¹Source: International Monetary Fund, World Economic Outlook Database
²Source: World Bank Group, India Development Update, April 2015

Corruption still widespread, despite slight decrease

Some good news: there has been a decrease in the proportion of respondents agreeing that bribery and corruption is widespread in their country (2015: 51% vs. 2013: 57%). More than half of the countries surveyed show a decrease.

Yet overall, there remains a majority of respondents agreeing that bribery and corruption is widespread in their country, and in rapid-growth markets 61% see corrupt practices happening widely.

Fraud risks remain despite high-profile cases

High-profile cases of financial misstatement and criminal investigations into accounting irregularities do not appear to have resulted in any reduction in the risks of fraud.

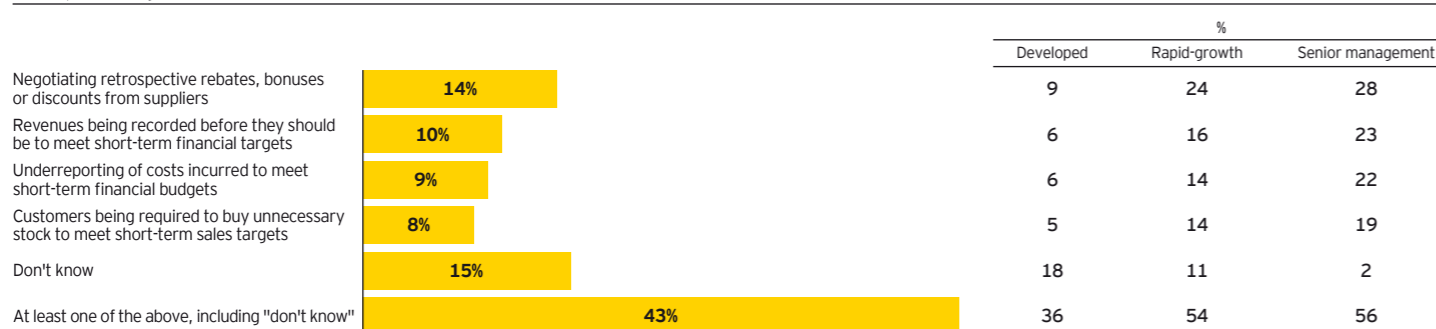
Our survey confirms that some employees are willing to misstate financial information. Thirty-seven percent of respondents agree that companies in their country often report their financial performance as better than it is. Over 150 respondents to our survey stated that misstating financial performance can be justified, but even more appear willing to take actions that could result in financial statement manipulation:

- ▶ Twelve percent say requesting suppliers delay invoicing can be justified (16% in rapid-growth markets).
- ▶ Fourteen percent say booking revenue from rebates with suppliers early can be justified (23% in rapid-growth markets).
- ▶ Twenty-seven percent say negotiating retrospective rebates with suppliers can be justified (39% in rapid-growth markets).

This is not just a theoretical risk. Our survey shows that manipulation of results is actually occurring within businesses. More than one in five senior management respondents were aware of early recognition of revenue in their company in the last 12 months. The same proportion had heard of underreporting of costs in their company during the last 12 months.

Thirty-seven percent of respondents agree that companies in their country often report their financial performance as better than it is.

Figure 5
Manipulating results

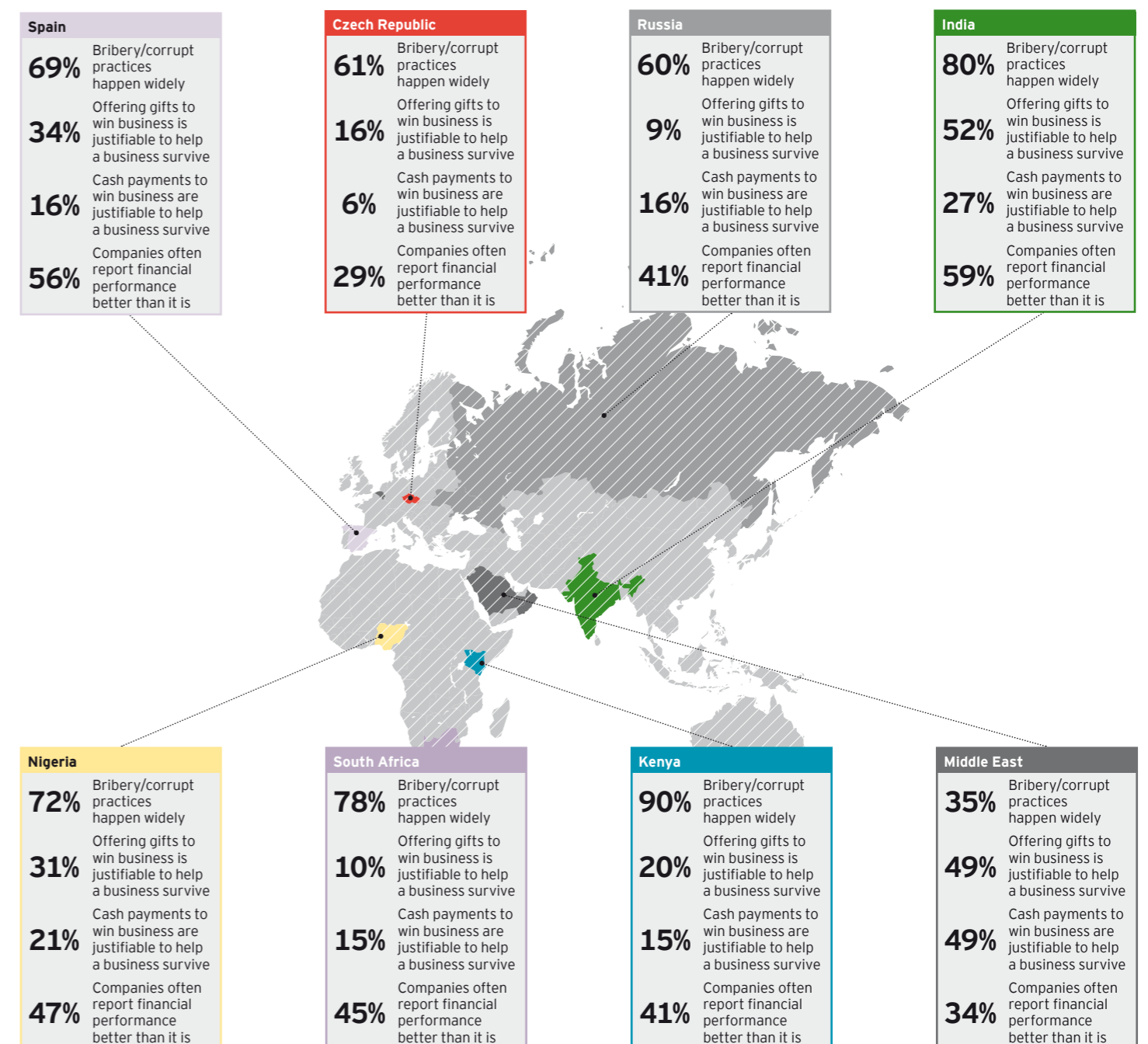


Q: Which, if any, of the following have you heard of happening at your company in the last 12 months?

Base: All respondents (3,800); Developed (1,600); Rapid-growth (1,100); Senior manager (288)

Our results highlight the challenges in doing business in all markets – fraud, bribery and corruption are widespread across geographies. Yet, there are differences in the ways in which these risks manifest themselves in different countries. For example, our results suggest that in Russia employees are more likely to pay cash bribes than to offer gifts, whereas in India gifts are more likely. Businesses need to understand these nuances in order to implement effective integrity and compliance programs.

Figure 6
Fraud, bribery and corruption across Europe, Middle East, India and Africa



Base: All respondents (3,800)

Does compliance enable growth?

Our survey results are indicative of a human truth: people like to do business with people they trust. Respondents working at companies seen to have high ethical standards are also more likely to be seeing their revenues grow.

Some employees continue to see compliance as a burden that can damage competitiveness. One-fifth of respondents, for example, state that following their ABAC policy very closely would harm competitiveness.

But many of the key results tell a different story. Good compliance and growth appear to go hand in hand.

The results show that businesses that have experienced revenue growth in the last two years are more likely to be seen as ethical by their employees, not only at head office but also across operations in different countries. This correlation was observed across many of our key questions.

The results show that businesses that are seen as ethical by their employees are more likely to have experienced revenue growth.

	Results from businesses with increased revenues	Results from businesses with decreased revenues
How would you rate your company's ethical standards when doing business?	31% Very good	18% Very good
How confident are you that your business's operations in different countries meet the same ethical standards?	62% Fairly or very confident	41% Fairly or very confident
Do unethical practices often go unnoticed by head office?	19% Agree	28% Agree
Have ethical standards got better or worse in your company in the last two years, or have they stayed the same?	43% Got better	20% Got better
What impact has regulatory activity in your sector had on ethical standards in your company?	30% Positive impact	14% Positive impact
What impact has regulatory activity in the last two years had upon results in your company?	26% Positive impact	8% Positive impact

Base: Companies reported as having increased revenue (2,132); Companies reported as having decreased revenue (665)

Policies and procedures are better too

The results also show that businesses that have experienced revenue growth in the last two years are more likely to have effective compliance policies and procedures in place. Compared with businesses that have experienced decreased revenue, respondents of companies that have experienced revenue growth are more likely to have policies in place, have penalties for misconduct, deliver training and support those reporting fraud or corruption.

Good compliance is not a barrier to growth or a burden to increased profitability. It is a requirement to sustain success.

Results from businesses with increased revenues vs. results from businesses with decreased revenues

State that their company has an ABAC policy and code of conduct

63% vs. 53%

Have attended ABAC training

69% vs. 58%

Agree there are clear penalties for breaking ABAC policies

55% vs. 43%

Have found ABAC training useful

75% vs. 63%

Agree people reporting fraud or corruption would be supported

50% vs. 30%

State that their company uses approved supplier databases

33% vs. 25%

According to our respondents, management in companies that have experienced revenue growth are more engaged in monitoring compliance with policies and procedures, and gathering the necessary data to support decision-making and risk mitigation.

Compared with businesses that have experienced decreased revenue, respondents in companies that have experienced revenue growth are more likely to:

- ▶ See management visiting local offices at least once every six months
- ▶ Be confident that head office management obtains the right data to assess the reliability of business units' financial results
- ▶ Agree that management use this data effectively

Do ethical conduct and a strong focus on compliance drive growth? Our results tell us that – at the very least – they can go hand in hand. Good compliance is not a barrier to growth or a burden to increased profitability. It is a requirement for sustained success.

Financial services – under pressure from all sides

Financial institutions remain the focus of robust regulatory enforcement. Huge fines continue to be levied against firms in the sector. Regulation and media scrutiny of the sector remains intense.

Issues of misselling, sanctions breaches and other control failures continue to be uncovered by these organizations. Investigations of market manipulation, such as LIBOR, and other investigations are putting pressure on businesses, and emerging risks – such as cyber attacks – are increasing the challenge. Difficulties in managing diverse and disconnected data globally are also preventing financial services organizations from identifying risks and issues, and complicate their ability to respond to regulatory inquiries.

In spite of these stress points, businesses in this sector are under intense pressure to grow.

Our results also show that financial institutions have responded to these challenges – and that their actions are widely understood to have delivered improvements in culture and performance.

Market conditions – more pressure, greater challenges

73% of financial services respondents agree management will be under increased pressure to deliver good financial performance over the next 12 months, compared with 62% of other respondents.

69% of financial services respondents say regulation in the sector has increased in the last two years, compared with 44% across other sectors. Some 57% of financial services respondents agree that increased regulation is increasing the challenges to the growth or success of their business.

In particular, 38% of financial services respondents agree that systems and processes to prevent and detect money laundering are increasing challenges.

68% of financial services respondents agree that slower-than-expected economic growth is a challenge to the success of their business, compared with 56% other respondents.

Affected by political instability

Thirty-five percent of financial services respondents agree that political instability in some countries in which they trade is a challenge to the success of their business.

Hit hard by international tension and conflict

Twenty-six percent of financial services respondents agree that uncertainty about their ability to trade due to economic sanctions or export controls is a challenge to the success of their business. This is higher than other sectors, but still surprisingly low, given the very high level of attention from regulators on this issue.

Greater challenges, yes, but that's not always seen as a bad thing

The survey data shows respondents in the financial services sector feeling greater pressure and stronger challenges. But – in the case of increased regulation – some respondents see this as having a positive effect.

Figure 7
Regulation – not seen as such a bad thing



Q: Has regulatory activity in your sector had a positive or negative impact on ethical standards in your company or has it had no impact?
Base: Financial services (520); Other sectors (3,280)

Thirty-four percent of financial services respondents agree that regulatory activity has had a positive impact on ethical standards in their company. Furthermore, 24% of financial services respondents report that regulatory activity has had a positive impact on their company's results (30% report no impact).

Overall, 43% of financial services respondents agree that ethical standards had improved in their company in the last two years – over one-third more than non-financial services respondents.



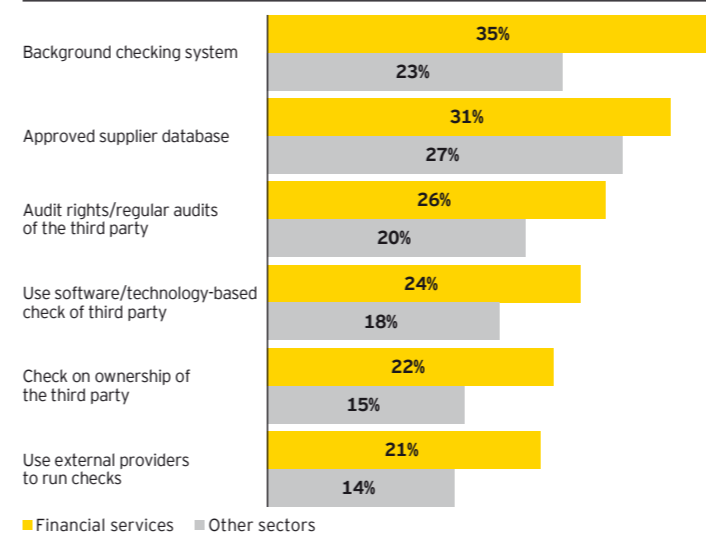
Responding to the pressure

There are several areas where our results show financial services organizations to be more active than other sectors in terms of their approach to compliance.

Financial services respondents, for example, are almost 50% more likely than other respondents to report that their organization has an ABAC policy and code of conduct (79% financial services vs. 54% other sectors).

Financial services organizations are also much more likely to have systems and processes in place to mitigate bribery and corruption risks. For example, when asked about managing risks associated with third parties, we found that financial services organizations "outperformed" other sectors in all aspects.

Figure 8
Better managing third parties



Q: Thinking about third parties that are used by your part of the business, what systems or processes do you have in place to manage and monitor those relationships?
Base: Financial services (520); Other sectors (3,280)

In relation to ABAC training, not only do a higher proportion of financial services respondents state they have attended training (83% vs. 60%), but they are also more likely to have found it useful where they have attended it (80% vs. 68%).

Finally, respondents from financial services companies are more likely than respondents from other sectors to state their company has a whistle-blowing hotline (88% vs. 74%), and more likely to think that a report will always be followed up (53% vs 29%).

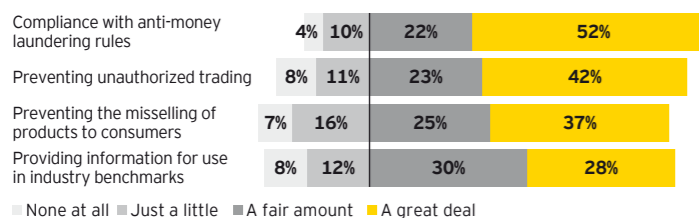
Notwithstanding this higher level of activity, it is clear that there is still more to do. Organizations should assess the cost of control enhancement programs against the cost of penalties that are being imposed where breaches are identified.

Financial services respondents are almost 50% more likely than other respondents to report that their organization has an ABAC policy and code of conduct.

Financial services respondents show their organizations are taking a range of sector-specific compliance risks seriously, including money laundering, unauthorized trading and misselling – with senior management paying significant attention to these issues.

But again, there is more to do. Compliance teams cannot deliver improvements in isolation, so increased emphasis must be placed on more active senior management involvement.

Figure 9
Focus on sector-specific issues



Q: Thinking about compliance challenges, how much attention are the senior management of your company paying to the following areas?

Base: Financial services (520)

The "Don't know" percentages have been omitted to allow better comparison between the responses given.

Culture and communication – doing and saying the right thing?

One of the biggest differences between financial services organizations and other sectors appears to be related to senior management communication and actions. Our results show that, in financial services organizations, senior management is much more likely to be seen to:

- ▶ Strongly communicate their commitment to ABAC policies
- ▶ Frequently communicate about the importance of high ethical standards and behavior

This tone at the top does seem to be having an impact. Financial services respondents are more likely to:

- ▶ Rate their company's ethical standards when doing business as "good"
- ▶ Be confident their organization's operations in different countries meet the same ethical standards
- ▶ Disagree that unethical practices go unnoticed by head office

Figure 10
Better culture

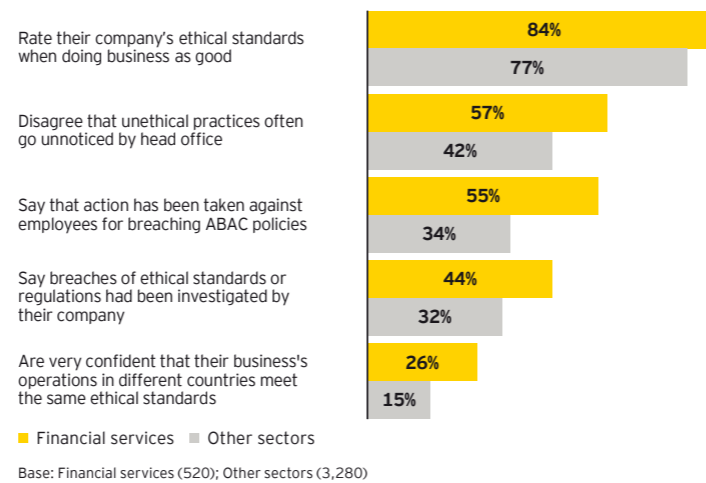
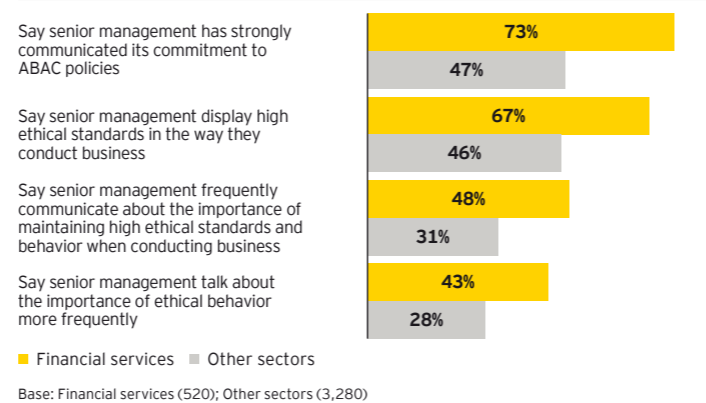


Figure 11
Senior management more engaged



Improving culture – unfinished business

The increased focus on compliance in the financial services sector would almost certainly not have occurred without the catalyst of increased regulation and scrutiny.

These organizations have responded. They have invested in compliance, building new teams, introducing new systems and controls, communicating more about the issues and delivering more training.

Despite this significant effort, still only a minority of respondents report that ethical standards have improved in their company in the last two years.

Our results show that there are still respondents in the financial services sector who are not aware of whether their business has an ABAC policy – or report that their business does not have one. There are respondents who report that their business does not have a whistle-blowing hotline. And there are senior managers who are perceived as showing no attention at all to anti-money laundering rules, unauthorized trading or misselling issues.

The regulatory focus on the sector is not going to reduce, and customers, the media and other stakeholders will continue to scrutinize the activity of these businesses closely.

So the pressure is there to keep improving. To do so, senior management needs to sustain a high level of engagement with the risks. These risks are external, like cyber-attacks or money laundering, but also internal, including market manipulation or misselling.

Senior management needs to resource the compliance function and this requires significant investment, including equipping it with the right technology. The organizations also need to focus on broader information governance concerns – breaking down information silos and improving data quality.

Tackling this wider problem will enable them to leverage big data to improve compliance effectiveness, through monitoring and forensic data analytics. It will also improve investigative outcomes and increase their ability to respond to regulators in a more comprehensive and efficient manner.

Senior management also need to encourage the first line of defense in the business to drive change. That means all employees need to be engaged in meeting compliance objectives.

With senior management increasingly in the firing line – and personally liable in some cases – the cost of failing to act will be more than a fine on the business.

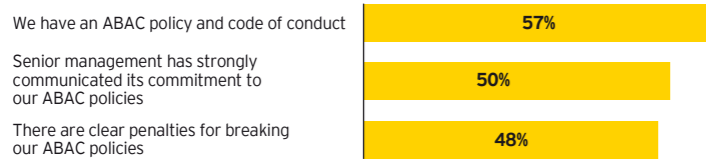
Protecting sustainable business value

If good compliance is a requirement for sustained success, what does it look like? We asked a series of questions focused on the essential elements of a robust compliance risk management program. These addressed whether businesses have the building blocks of an integrity and compliance program in place, as well as their effectiveness.

Head office doesn't know what's going on

Some businesses still appear not to have the building blocks of an integrity and compliance program in place. Of our 3,800 respondents, 22% did not know whether their company had an anti-bribery policy or not. Twenty percent reported that their company did not have an ABAC policy or code of conduct.

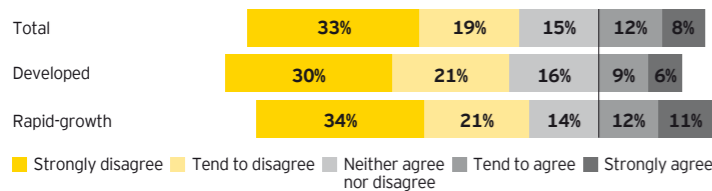
Figure 12
Basic building blocks – still some way to go



Q: For each of the following, please indicate whether it applies, or does not apply, to your organization, or whether you don't know?
Base: All respondents (3,800)

Having a policy is one thing. Following it is another. We found that there are still a large number of respondents who view their ABAC policies as having a detrimental effect on their competitiveness.

Figure 13
Policies harming business?

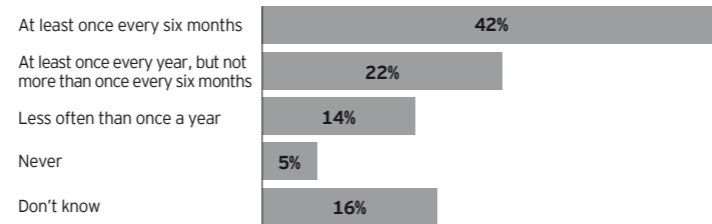


Q: To what extent do you agree or disagree that if you followed your ABAC policy very closely, it would harm your competitiveness in your market?
Base: All respondents (3,800); Developed (1,600); Rapid-growth (1,100)
The "Don't know" percentages have been omitted to allow better comparison between the responses given.

In many cases, it appears that senior management in head office is not sufficiently aware of what is occurring in operational business units. Only 17% of respondents across all markets strongly agree that the management team of their head office understands the business environment that they face in their local market. Interestingly, the result was actually less – 16% – in developed markets.

This result is perhaps not surprising, given less than half of our respondents were aware of head office management teams visiting local offices at least every six months. Indeed, nearly 20% reported that visits took place either less than once a year or never.

Figure 14
Are management engaged enough?



Q: How often, if at all, do members of the management team of your head office visit local offices or factories?
Base: All respondents (3,800)

Use all of your staff to protect you

Although site visits by internal audit, for example, are important, tip-offs from employees remain the most common way that fraud and other unethical business practices are detected.

Yet almost a quarter of respondents say their company does not have a whistle-blowing hotline. Without such channels, clear guidance or top-down support, employees may be dissuaded from reporting fraud.

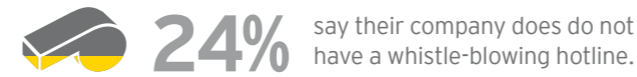
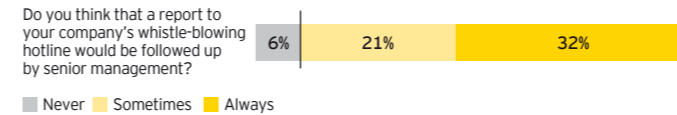


Figure 15
Management following up on whistle-blower reports



Q: Do you think that a report to your company's whistle-blower hotline would be followed up by senior management?
Base: All respondents (3,800)

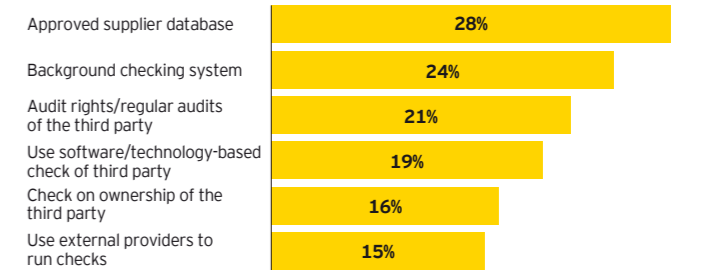
The "My company doesn't have a whistle-blower hotline" and "Don't know" percentages have been omitted to allow better comparison between the responses given.

Whistle-blowing – make sure you hear the bad news first

Businesses are more likely than ever to come under scrutiny in relation to their compliance reporting framework. Recent regulatory developments in many jurisdictions have reinforced the importance of compliance reporting hotlines. For example, eleven of the UK Parliamentary Commission on Banking Standards' recommendations on enhancing corporate transparency and integrity relate to whistle-blowing. At the same time, whistle-blowers are more likely to raise issues, potentially outside of the business. The cost of failing to implement an effective compliance reporting framework can be substantial.

It's not just your business that needs monitoring

Figure 16
Third party risk management



Q: Thinking about third parties that are used by your part of the business, what systems or processes do you have in place to manage and monitor those relationships?
Base: All respondents (3,800)

Recent high-profile enforcement cases have reinforced the importance of knowing who your third parties are – and what they are doing. But, in many cases, this is still not happening. Less than a quarter of respondents say their company performs background checks on suppliers and less than a fifth agree their company checks the ownership of third parties.

Our results also show that a majority of businesses are failing to check what third parties are doing on their behalf on an ongoing basis. Only a fifth of respondents say their company has audit rights or performs regular audits of third parties.

Get with the program – improving the corporate response

Integrity and compliance programs invariably consist of elements designed to mitigate fraud, bribery and corruption risk.

When comparing our results from prior years across all respondents, it is not apparent that there have been overall improvements in integrity and compliance management activity. For example, in 2013, 57% of respondents reported that they had an ABAC policy in place and again this year, the result was 57%.

We have focused on some of the findings and how they map to our view of a compliance framework. There are many other aspects of such a framework, not least risk assessments, which should form the framework's foundations, and investigations and remediation of incidents that enable continuous improvement.



Monitoring, auditing and whistle-blowing processes

Monitoring

Monitoring is a key component of mature integrity and compliance programs. It is impractical, however, to monitor every activity and transaction across the organization, so deciding what high-risk activity to monitor is clearly a critical decision and one that needs regular review. Too often, we observe monitoring that is not as effective as it could be. It sometimes relies on relatively simple rules-based testing of existing policies and procedures. Smarter, focused testing, going beyond simple policy compliance, monitors whether local business operations are acting in the spirit, and not just the letter, of the corporate policy. This helps global businesses identify emerging risks, trends and compliance perceptions.

Confidential reporting and whistle-blowing

Having a confidential reporting channel is no longer optional. Regulatory bodies and enforcement agencies see such channels as critical to an integrity program. Without such channels, clear guidance or top-down support, employees may be dissuaded from reporting fraud or other unethical business practices. Our results suggest that where they are in place, hotlines aren't always effective: 42% of the respondents whose companies have a hotline think that a report is always followed up.

Third-party due diligence

Managing third-party compliance risks

Managing third-party risk can seem a daunting task for global organizations with vast numbers of business relationships. But with sanctions regimes becoming more complex and targeted, knowing precisely who you are doing business with, including who may be behind the organization, is critical to managing regulatory and reputational risks. Increasingly, technology is being used to drive consistency in the process – from risk scoring through to documentation of approvals.

Risk assessment, policies, standard setting, education and awareness

Risk assessment, policies and codes of conduct

Regular risk assessments are critical to define the design of the integrity and compliance program and to evaluate the effectiveness of the risk-mitigating activities, processes and controls. The design of the compliance risk assessment will differ from organization to organization - but should incorporate a variety of stakeholders' opinions and be aligned with other major risk functions in the organization, such as enterprise risk, internal audit and legal.

Besides a proper risk assessment, the corporate values outlined in the code of conduct as well as explanatory policies should be another fundamental part of any integrity and compliance program – but they are not enough on their own. Specifically, senior management needs to act on them – and be seen to do so. Our results show that this message is now well received. Of those respondents saying there are ABAC policies in place, 91% say that senior management has strongly communicated its commitment to them.

Management and control processes

ABAC and compliance awareness training

ABAC training is a critical method for communicating policies to employees. It should be mandatory for certain employees and attendance should be monitored. Yet 37% of respondents have not received any ABAC training. It is essential that businesses assess the effectiveness of training and ensure it is relevant for different roles within the business. The good news is that almost three-quarters of the respondents who have attended training found it useful for making decisions in their role.

High-volume, high-velocity and high-variety data is the norm

Monitoring activities are made much harder by the increasingly challenging data environment that businesses face. In our experience, most large organizations face a similar challenge: a large number of disparate and stand-alone systems that do not easily combine either with core financial or other datasets but which nonetheless contain important data.

On their own, these standalone databases may be of limited use, but when combined with other data they can highlight key risks and issues.

An effective compliance monitoring program brings together disparate data sets. The use of forensic data analytics across these can focus and improve testing, as well as delivering other benefits:

- ▶ Data visualization, which enables analysts to identify and explore issues quickly and present findings to stakeholders
- ▶ Text mining and targeted ABAC-specific tests that can be more effective across combined data sets in identifying potentially improper payments
- ▶ Sophisticated risk ranking of issues, transactions or other events that prioritizes effort, highlights trends and can enable earlier detection of inappropriate activity or misconduct
- ▶ Capturing data that provides insight into the behavioral patterns of employees, third-party intermediaries and their interactions with government officials
- ▶ Identifying hidden transfers of value in discounts, credit memos and free inventory for potential slush funds created to pay bribes

Leadership engagement is critical

Our survey shows that many companies still have some way to go in achieving a strong ethical culture. Only a quarter of respondents rate their company's ethical standards as "very good." But the results show clear benefits where this is the case. Respondents who rate their ethical standards as "very good," compared with those who rated their ethical standards as "poor", are:

- ▶ **More than twice** as likely to agree that negative financial performance is shared in an open and transparent way with head office.
- ▶ **More than four times** as likely to be confident their company's business operations in different countries meet the same ethical standards.
- ▶ **More than three times** as likely to feel that unethical practices are noticed by head office.
- ▶ **At least a third** less likely to have heard of revenues being recorded early, customers being required to buy unnecessary stock and underreporting of costs.

The results therefore suggest that effort focused on culture is going to reduce the risk of fraud and other conduct that could cause significant commercial damage.

Management – mixed signals

Our results emphasize the point that management has a fundamental role to play in bringing about cultural changes. In those organizations where respondents rate their ethical standards as "very good," compared with those who rated their ethical standards as "poor", management is clearly engaged.

- ▶ Head office management team are **more than twice** as likely to be seen to understand the business environment that our respondents face.
- ▶ Respondents are **more than three times as likely** to have frequently heard senior management communicate the importance of maintaining high ethical standards.
- ▶ Senior management is **more than twice** as likely to have strongly communicated its commitment to anti-bribery policies.
- ▶ Head office is **more than twice** as likely to be seen to be able to assess the reliability of a business unit's financial results.

There is still a challenge facing senior management: they may be overestimating their impact. Senior managers think that they are better than they actually are at communicating the importance of high ethical standards. Forty-four percent of senior management respondents say they communicate this, but only 30% of other employees agree. Also, perhaps of greater concern, 27% of respondents say that they either have never heard senior managers communicate this message, or just don't know.



Forty-four percent of senior management respondents said they communicate the importance of high ethical standards but only 30% of other employees agree

What's expected and what it takes

Overall, this year's survey results deliver a strong message of support for those performing compliance-related roles. There are several examples of leading practice – such as the usefulness of anti-bribery training. Regulators, consumers and other external stakeholders expect more than just the basics. What is expected is an effective and sustainable integrity and compliance program underpinned by a culture of ethical business behavior.

Creating this requires significant investment. The responses from financial services organizations show how that investment can move the dial in the right direction, but respondents in these businesses also know how much effort has been required to achieve this.

For boards and shareholders, the message is clear: good compliance is not a barrier to growth. Nor is it optional. In the current environment, it is a critical component to sustain success for the organization, its employees and shareholders.

Conclusion

- ▶ The increased levels of regulatory activity will not reduce in the near term, challenging economic conditions look set to remain for some time and the risks of fraud, bribery and corruption are not going away.
- ▶ Businesses remain under intense pressure to grow and, in this market, growth through corruption or fraud may seem the quickest option.
- ▶ Our survey results show that growth can be achieved while also managing risks effectively, confirming our view that, far from being a barrier to growth, effective compliance is a requirement for sustained success.

Survey approach

Between December 2014 and January 2015, our researchers – the global market research agency Ipsos – conducted 3,800 interviews with employees of large companies* in 38 countries online or in person. Interviews were conducted on an anonymous basis using local language in all countries.

Participant profile – region and country, company size, role and sector

Number of interviews	Number of employees globally	%
Eastern Europe	1,400	
Croatia	100	Above 5,000
Czech Republic	100	1,500 – 4,999
Estonia	100	1,000 – 1,499
Hungary	100	500 – 999
Latvia	100	Less than 500
Lithuania	100	
Poland	100	
Romania	100	
Russia	100	
Serbia	100	
Slovakia	100	
Slovenia	100	
Turkey	100	
Ukraine	100	
Middle East, India and Africa	800	
Egypt	100	
India	100	
Kenya	100	
Nigeria	100	
Oman	100	
Saudi Arabia	100	
South Africa	100	
UAE	100	
Western Europe	1,600	
Austria	100	
Belgium	100	
Denmark	100	
Finland	100	
France	100	
Germany	100	
Greece	100	
Ireland	100	
Italy	100	
Netherlands	100	
Norway	100	
Portugal	100	
Spain	100	
Sweden	100	
Switzerland	100	
UK	100	

Role within organization	%
Board director	1
Senior management	8
Other management	25
Other employee	63
Other	4

Industry sector	%
Financial services	14
Technology, communications and entertainment	12
Transportation	11
Government and public sector	11
Consumer products/retail/wholesale	10
Manufacturing/chemicals	7
Healthcare and life sciences	6
Real estate	5
Extractive industries	3
Professional firms and services	3
Power and utilities	2
Other sectors	15

For the purpose of this report, “developed” countries include Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the UK. The “rapid-growth” countries, taken from our *Rapid-Growth Markets Forecast: July 2014*, include Czech Republic, Egypt, India, Nigeria, Poland, Russia, Saudi Arabia, South Africa, Turkey, UAE and Ukraine.

* Large companies are defined as those with more than 150, 250, 500, 1,000 or 1,500 employees globally, depending on the country, or as quoted on a stock exchange or are multinationals.

Detailed results

Table 1: Corruption perception by country

Bribery/corrupt practices happen widely in business in this country

Rank	Country	% Agree
1	Croatia	92
2	Kenya	90
3	Slovenia	87
4	Serbia	84
5	Portugal	82
6	India	80
7	Ukraine	80
8	Slovakia	78
9	South Africa	78
10	Hungary	73
11	Nigeria	72
12	Greece	69
13	Spain	69
14	Italy	67
15	Egypt	64
16	Turkey	63
17	Czech Republic	61
18	Russia	60
19	Latvia	55
	All respondents	51
20	Ireland	50
21	Lithuania	45
22	Saudi Arabia	44
23	Poland	43
24	Austria	42
25	Romania	39
26	Oman	36
27	Belgium	34
28	France	29
29	UK	27
30	Germany	26
31	UAE	24
32	Estonia	21
33	Norway	21
34	Netherlands	13
35	Switzerland	12
36	Finland	11
37	Sweden	10
38	Denmark	4



51% of respondents agree that bribery/corrupt practices happen widely in their country

Table 2: Prevalence of financial performance manipulation by country

Which, if any, of the following have you heard of happening at your company in the last 12 months:

- A. Revenues being recorded before they should to meet short-term financial targets?
- B. Customers being required to buy unnecessary stock to meet short-term financial targets?
- C. Underreporting of costs incurred to meet short-term financial targets?

Rank	Country	% At least one of these
1	Oman	99
2	India	62
3	Saudi Arabia	43
4	UAE	40
5	Turkey	34
6	Egypt	32
7	Poland	31
8	Croatia	29
9	Ukraine	28
10	Russia	26
11	Kenya	23
12	Greece	23
13	South Africa	22
	All respondents	21
14	Slovakia	20
15	Nigeria	19
16	Ireland	18
17	Slovenia	17
18	Portugal	17
19	Italy	17
20	Czech Republic	16
21	Spain	16
22	Serbia	16
23	Austria	15
24	Romania	14
25	Sweden	13
26	Belgium	11
27	Switzerland	11
28	Germany	11
29	UK	10
30	France	10
31	Hungary	10
32	Estonia	10
33	Netherlands	9
34	Denmark	5
35	Lithuania	5
36	Norway	5
37	Latvia	4
38	Finland	3



At least 21% of respondents have heard of fraud or bribery in their business in the last 12 months

Table 3: Tone from the top by country

Senior management has strongly communicated its commitment to our ABAC policies

Rank	Country	% Applies
1	Kenya	84
2	Nigeria	77
3	India	76
4	South Africa	72
5	Norway	61
6	Finland	57
7	Romania	57
8	Sweden	57
9	Germany	55
10	Saudi Arabia	55
11	Greece	54
12	Oman	54
13	Switzerland	54
14	Denmark	53
15	Ireland	53
16	UK	52
17	Turkey	51
18	UAE	51
	All respondents	50
19	Italy	49
20	Russia	49
21	Spain	48
22	Austria	47
23	Hungary	47
24	Portugal	46
25	Egypt	45
26	France	45
27	Ukraine	45
28	Serbia	44
29	Lithuania	44
30	Belgium	43
31	Croatia	41
32	Estonia	40
33	Slovakia	39
34	Latvia	39
35	Czech Republic	34
36	Netherlands	34
37	Poland	30
38	Slovenia	24



Only 50% of respondents agree senior management in their business have strongly communicated their commitment to ABAC policies

Table 4: Tone from the top by sector

Senior management has strongly communicated its commitment to our ABAC policies

Sector	% Applies
Financial services	73
Extractive industries	55
Real estate	55
Power and utilities	51
All respondents	50
Technology, communications and entertainment	50
Consumer products/retail/wholesale	48
Life sciences	48
Government and public sector	47
Professional firms and services	46
Manufacturing/chemicals	45
Transportation	45
Other sectors	42
Healthcare	34

Table 5: Regulatory impact on sectors

Has regulatory activity in your sector had a positive impact on ethical standards in your company?

Sector	% Positive impact
Financial services	34
Real estate	30
Life sciences	29
Power and utilities	26
All respondents	24
Consumer products/retail/wholesale	24
Extractive industries	24
Government and public sector	24
Technology, communications and entertainment	24
Transportation	21
Manufacturing/chemicals	19
Other sectors	18
Healthcare	17
Professional firms and services	17

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