2016 GLOBAL CORRUPTION LAW COMPLIANCE SURVEY
INTERNATIONAL BUSINESS IS COMPLEX.

At RSM, our dedicated professionals seek first to understand your company’s global aspirations and then bring together specialized knowledge and experience for each country in which you conduct business.

As a firm, we focus on providing partner-level attention on every engagement anywhere in the world, regardless of your size. Whether you’ve got a transfer pricing issue in China, want to buy a company in the EU or have statutory audit needs in Latin America, you can trust that you’re getting the right support from experienced professionals. Our International Services Office is staffed with multi-lingual professionals whose only focus is to ensure clients are served by knowledgeable global resources and to facilitate seamless coordination among our RSM International colleagues around the world. Additionally, our Global Compliance Reporting Services provide a single point of contact to manage global compliance needs including tax compliance, statutory audit and outsourced accounting and financial reporting services in the foreign jurisdictions where you conduct business. Our strong history working with RSM colleagues across the globe ensures you are getting the help you need to meet your goals.
After several years of aggressively pursuing international expansion, many small and middle-market business leaders began to scale back in 2015. That decision was driven largely by falling commodity prices, an economic slowdown in emerging markets, weakness in the European Union and a persistently strong U.S. dollar. In fact, a 2016 survey of middle-market business leaders by J.P. Morgan Chase found that 90 percent had a neutral or pessimistic outlook on the global economy. That was a 9 percent rise from the previous year.\(^1\)

Still, despite the recent slowdown, more middle-market companies than ever before are doing business on a global stage. This typically happens via physical expansions, multinational partnerships, sales or distribution agreements and, notably, a variety of third-party intermediary relationships. While most business leaders have become more knowledgeable about global mandates prohibiting corrupt activities—such as the Foreign Corrupt Practices Act (FCPA) and the U.K.’s Bribery Act 2010—these laws are only part of an evolving puzzle of regulatory and enforcement trends. This fast-moving stream of information can make it difficult for middle-market executives to effectively navigate the often-turbulent international business climate.
With these issues in mind, RSM recently completed its 2016 Global Corruption Law Compliance Survey, gathering feedback from a panel of 159 middle-market business leaders. When we first explored this issue almost three years ago, surveyed leaders expressed a general awareness of global bribery and corruption risks, but also some concern about the level of preparedness in their organizations to address these risks. Fast forward to today and our middle market business leaders report a wider readiness to prevent and investigate potential issues. However, they continue to face challenges in striking the right balance between global competitiveness and risk-based compliance approaches. We asked participants over 30 detailed questions in three key segments, summarized as follows:

- **Awareness and leadership perspectives on fraud.** While most middle-market executives in our survey said the risks of bribery and corruption were low in the U.S., Canada and Europe, their confidence was not nearly as strong in certain global regions, such as Mexico, China and Central America. At the same time, a number of these business leaders indicated they might pursue a handful of questionable activities—particularly in the areas of entertainment, gifts or monetary incentives—because of a perception that similar practices are widespread among competitors.

- **Fraud prevention practices and readiness to investigate potential issues.** Our survey found that most companies had documented policies to react to bribery or corruption. However, business leaders also reported a range of local market, operational and global challenges to conducting those types of investigations. A majority of middle-market companies in our survey conducted background checks on global affiliates, but that diligence fell off when leaders were asked about surprise audits and access to records for those affiliates.

- **Whistleblowers and fraud reporting issues.** Middle-market leaders in our survey gave a number of reasons for not reporting bribery or corruption incidents, which generally centered around potentially negative reactions by external stakeholders. While a high majority of these companies provide whistleblower resources to help employees to report potentially illicit acts, leaders in the survey also identified key reasons why those tools are not always used.

Each of these segments are reviewed in greater detail in this report.

As you review the full findings of our survey, we hope it serves as a useful guide to benchmark your own company’s efforts in understanding, recognizing and protecting your business from global bribery and corruption activity. We would like to take this opportunity to thank our middle-market panel of business executives for their candid responses on this important topic.

RSM US LLP
Financial Investigations and Dispute Advisory Practice

**CONTACTS:**

John E. Rollins  
+1 212 372 1298  
john.rollins@rsmus.com

Joseph E. Decliveo, Jr.  
+1 212 372 1299  
joe.decliveo@rsmus.com
The threat of global corruption became headline news in April 2016, when the International Consortium of Investigative Journalists broke the so-called Panama Papers story. In essence, the report centered around the leak of over 11 million financial documents from Mossack Fonseca, a global law firm based in Panama. The documents revealed details on more than 214,000 offshore holdings connected to individuals in over 200 countries. This included the accounts of over 140 public officials from around the world, including a dozen current or former global leaders. It also included the names of over 30 people and companies blacklisted by the U.S. government for alleged business connections with drug smugglers, terrorist organizations or rogue nations. While the full impact of the leaked documents is still being evaluated, the odds are extremely high that an array of enforcement actions will follow.

Meanwhile, in a significant wind shift for fraud and corruption enforcement, 80 percent of FCPA-related enforcement actions brought by the U.S. Department of Justice (DOJ) in 2015 focused on individual actors and not corporations. That narrative was reinforced last fall, when Deputy U.S. Attorney General Sally Yates said, in part:

“One of the most effective ways to combat corporate misconduct is by seeking accountability from the individuals who perpetrated the wrongdoing. Such accountability is important for several reasons: it deters future illegal activity, it incentivizes changes in corporate behavior, it ensures that the proper parties are held responsible for their actions, and it promotes the public’s confidence in our justice system.”

This renewed focus on individuals is part of a broader strategy the DOJ refers to as “enhanced enforcement,” under which the agency boosted FCPA prosecutorial resources by more than 50 percent this year. This “carrot and stick” approach allows companies that promptly disclose FCPA violations, demonstrate proactive cooperation with law enforcement and implement timely remedial actions (including discipline of employees involved in illicit acts) to be eligible for a “mitigation credit” that could ultimately reduce fines by up to 50 percent. This enhanced enforcement pilot, which coincidentally began this April within days of the Panama Papers leak, included DOJ’s hiring of a high-level compliance expert to help evaluate corporate programs during prosecutions. The program is expected to run for at least one year before DOJ evaluates its success.
Yates reinforced the individual prosecution theme during a recent conference at the New York City Bar Association (sponsored in part by RSM), during which she stressed that in the current enforcement environment, leaders must respond to incidents of potential corporate misconduct with case-specific, appropriately tailored investigations. That means sharing relevant facts and evidence surrounding actions of individual(s) to the extent not protected by attorney-client privilege.

Interestingly, 2015 saw only one FCPA prosecution cases involving DOJ and the U.S. Securities and Exchange Commission (SEC). Eighty percent of SEC enforcement actions last year were against companies, while a majority of DOJ actions were against individuals. The most significant SEC action involved pharmaceutical company Bristol–Myers Squibb, which paid $14 million last October to settle allegations involving a joint venture partner that made improper payments to state-run hospitals in China in exchange for prescribing the company’s drug products. The SEC also successfully prosecuted Mead Johnson Nutrition Co., as that firm paid $12 million last July to settle allegations that the company made improper payments to Chinese health care workers in exchange for recommending its infant formula products.

While the SEC created a cooperation program several years ago that opened the door to deferred prosecution agreements (DPAs) and non-prosecution agreements (NPAs) in corporate fraud and corruption cases, it did not mandate that companies had to self-report violations in order to be eligible for those alternative tools. While companies that did not self-report violations always assumed the risk of detection, SEC Enforcement Director Andrew Ceresney said in a speech last November that self-reporting is a key factor for any DPA or NPA consideration in an FCPA case. More specifically, Ceresney said:

“If the Enforcement Division finds the violations through its own investigation or from a whistleblower, the consequences to the company will likely be worse and the opportunity to earn additional cooperation credit (such as a DPA or NPA) may well be lost. As I’ve said before, when discussing our cooperation program in general and specifically in the FCPA context, companies are gambling if they fail to self-report FCPA misconduct to us.”

As noted in the chart above, 2015 was the quietest year for FCPA prosecutions in nearly a decade. However, a review of first quarter 2016 activity demonstrates that both DOJ and SEC are ramping up their enforcement activity.

Through the end of March 2016, DOJ and SEC concluded 11 enforcement actions of FCPA-related cases, which included eight corporations and three individuals. At the top of the list was the $396.7 million in penalties paid to DOJ and SEC by Dutch telecom services provider VimpelCom Ltd. and a wholly-owned subsidiary for bribing at least one government official in Uzbekistan over a six-year period.

Smaller companies also paid hefty penalties in the first quarter of 2016. For example, SciClone Pharmaceuticals, a mid-cap U.S. specialty pharmaceutical firm serving the Chinese market, paid $12.8 million in fines to the SEC in February. Regulators said the company made improper payments to various officials at Chinese-owned health institutions who, in turn, helped inflate sales figures over a five-year period. The illicit payments included cash, gifts and travel perks for Chinese customers and officials.

As a whole, the eight companies paid a total of nearly $498 million in fines and penalties during the first quarter of 2016, nearly four times more than the $133 million in corporate fines and penalties paid to DOJ and SEC for all of 2015.
RESPONDENT PROFILE AND GENERAL FRAUD AWARENESS

Our 2016 Global Corruption Law Compliance Survey provides a solid snapshot of middle-market executives’ views on fraud awareness, readiness to investigate issues and general attitudes regarding bribery and corruption risks. Our respondents delivered good insight on the use of fraud prevention and reporting tools.

Summary demographic information about the participants in our survey:

- A majority of respondents (62 percent) worked in privately held companies, with 30 percent working in public companies and the remainder in businesses owned by private-equity firms.
- Nearly half (47 percent) of the companies responding to our poll had annual revenues between $101 to $500 million, with 30 percent posting annual revenues between $51 to $100 million and 23 percent reporting yearly revenues of $501 million to $1 billion.
- The largest industry segments represented in our survey included manufacturing (21 percent), finance and insurance (16 percent), professional, scientific and technical services (11 percent), and information (9 percent) businesses.
- Chief financial officers were the most frequent respondents to our poll (23 percent), followed by chief executive officers or presidents (13 percent), comptrollers (13 percent), general counsel (11 percent) and chief operating officers (10 percent).

Chart 1. Beliefs about FCPA scrutiny and enforcement

Belief that regulators are increasing FCPA scrutiny and enforcement (% of participants – frequency 159)

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Don’t know</td>
<td>0%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Concern over increased FCPA scrutiny (% of participants – frequency 100*)

<table>
<thead>
<tr>
<th></th>
<th>Not concerned</th>
<th>Somewhat concerned</th>
<th>Very concerned</th>
<th>Extremly concerned</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>20%</td>
<td>40%</td>
<td>60%</td>
<td>80%</td>
</tr>
</tbody>
</table>

* Responses from participants who responded yes to previous question, shown at left.

In a 2015 enterprise risk management poll of U.S. senior executives and corporate board members conducted by North Carolina State University, regulatory change and heightened regulatory scrutiny was identified as the biggest overall risk for the third consecutive year. In fact, two-thirds of those leaders said regulatory issues would “significantly impact” their organizations.

This level of importance was validated—at least in part—in our Global Corruption Law Compliance Survey. In our poll, 63 percent of top leaders agreed with the statement that FCPA scrutiny was increasing. However, just 34 percent said they were “extremely” or “very” concerned about how it might affect their organizations (Chart 1, above). This apparent disconnect may reflect a need for leaders to gain a more complete understanding of their companies’ full range of potential risk exposure, particularly when it comes to bribery and corruption threats associated with third-party intermediaries (see discussion under Chart 3, on page 8).
As a general rule, survey participants viewed the risks of bribery and corruption as relatively low for the U.S. and Canada (Chart 2, above). However, that view of risk spiked significantly in other world regions, particularly in Mexico (which 27 percent of respondents identified as a “high risk” place to do business) and China (24 percent identified as a “high risk” marketplace). Interestingly, those risk/reward perceptions did not necessarily square with findings in Transparency International’s most recent Global Corruption Perceptions Index. While China and Mexico were clearly identified as riskier bets, placing 83rd and 95th, respectively, on this scale of perceived public sector corruption, the U.S. (16th) and Canada (9th) actually were seen as less safe from fraud than might be expected from our participants’ responses.

Since all of the companies in our survey have some exposure to international business, mainly through direct employee contact or sales operations in foreign markets, it’s no surprise that 84 percent of leaders were either “extremely” or “very” familiar with major anti-fraud laws such as the FCPA. However, that familiarity did not override concerns about the activities of
third-party intermediaries, which companies often retain to help navigate new markets. (% of participants, note small sample sizes of between 15 and 40)

Recommended by govt. official
Unusual compensation structure
Refuses an audit
Incorrect invoices or overbilling
Close or friendly relations with
govt. official(s)
Unusual payment requests
Request unusual discounts
for customers
No discernible business
experience or background
None of the above

Chart 3. Concern about third-party risks, by activity

In our survey, a startling 87 percent of executives were “extremely” or “very” worried about the activities of third-party intermediaries recommended by local government officers (Chart 3, above). Over half of the leaders who used third-party intermediaries expressed strong concerns about additional behaviors, such as unusual compensation arrangements, audit refusals, invoicing or overbilling issues, and non-routine customer discount requests.

These findings suggest that many middle-market companies struggle with effective oversight of third-party intermediaries, which is a critical part of enterprise risk management. For example, if a third party made improper payments to local government officials on behalf of a given company, that business may be liable for violating anti-bribery laws. Thus, middle-market businesses with international ties should be assertive (when feasible) in obtaining audit rights to regularly check the books, records and procedures of any third-party work done on the company’s behalf. At minimum, it’s extremely important for companies to mandate that all third-party intermediaries sign compliance agreements covering applicable anti-bribery and corporate governance regulations, while also periodically recertifying compliance.
As previously noted in Chart 2, many executives in our survey perceived that bribery, corruption or other fraud risks were much greater in emerging-market nations. However, the hard truth is that fraudulent acts are also committed by both governments and businesses in advanced economies with otherwise sound reputations.

For example, Transparency International’s 2015 Global Corruption Perceptions Index ranked Sweden as one of the cleanest nations for perceived public sector corruption. However, a closer look shows that Telia Company (formerly TeliaSonera AB), a telecommunications provider based in Sweden, was forced to stop doing business in Uzbekistan after U.S. and Swedish prosecutors alleged the company paid hundreds of millions in bribes to Uzbek officials to help secure key business licenses in that nation.12 This is important to note, since the Swedish government has a 37 percent stake in Telia’s business operations.

This example illustrates another sobering reality: In a global economy where players do not always abide by a uniform set of rules, we found many middle-market leaders may struggle to find the right or appropriate line between compliance and competitiveness.

**Chart 4. Potentially risky activities, by prevalence and perception**

(% of participants – frequency 159)

<table>
<thead>
<tr>
<th>Prevalent in global business</th>
<th>Acceptable to remain competitive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entertain to retain business</td>
<td>Entertain to retain business</td>
</tr>
<tr>
<td>Personal gifts</td>
<td>Personal gifts</td>
</tr>
<tr>
<td>Cash payments or monetary incentives</td>
<td>Cash payments or monetary incentives</td>
</tr>
<tr>
<td>Adjust company’s financial performance to meet targets</td>
<td>Adjust company’s financial performance to meet targets</td>
</tr>
<tr>
<td>Participate in charitable donations</td>
<td>Participate in charitable donations</td>
</tr>
<tr>
<td>Underreport costs</td>
<td>Underreport costs</td>
</tr>
<tr>
<td>Other</td>
<td>Other</td>
</tr>
<tr>
<td>None of the above</td>
<td>None of the above</td>
</tr>
</tbody>
</table>
In our survey, 64 percent of executives said entertainment payouts to retain customers, which under certain circumstances can be an illicit practice, was widespread in global business (Chart 4, above). Meanwhile, 58 percent of those leaders said such entertainment expenses would be acceptable in their own companies to help maintain a competitive footing. Over half of leaders polled said personal gifts, cash payouts or adjusted financial results were also pervasive market practices, and just over one in four noted that those steps would be permissible in their own firms.

Leaders with sole responsibility for their company’s legal or regulatory compliance operations were more likely to view most of the activities noted above as unacceptable practices.

On the broader question of bribery and corruption, a surprising 85 percent of CEOs or company presidents and 67 percent of chief compliance officers in our survey said such activity was sometimes necessary to compete in global markets (Chart 5, above). Conversely, only 22 percent of corporate general counsel shared that viewpoint.
Middle-market business leaders continue to face pressure in avoiding bribery and corruption risks as they compete in global markets.

Another surprise: Seventy-one percent of leaders who said they were “extremely familiar” with anti-bribery and corruption laws also believed that skirting those rules was occasionally necessary to remain competitive (Chart 6, above).

Among the pool of respondents who said they would consider certain legal or regulatory violations, about two-thirds indicated they were also “extremely” or “very” concerned about the prospects of greater FCPA enforcement (Chart 7, above).
Taken as a whole, these findings suggest that many middle-market companies with global ties are under tremendous financial stress, creating certain circumstances in which executives may consider a full range of alternatives to relieve performance-related pressure points. This reinforces the need for strong corporate governance at the board and executive levels, with appropriate checks and balances to ensure accountability. These findings also suggest that companies would be wise to raise their education levels regarding FCPA and other anti-bribery regulations, with particular focus on the negative effect enforcement actions can have on external stakeholders, internal staff and overall reputation.
When asked about areas where their companies are most potentially vulnerable to fraudulent acts, 43 percent of leaders polled identified cybercrime as the greatest threat. This was followed by asset misappropriation (31 percent), bribery or corruption of a foreign official (26 percent) and false or fictitious vendor invoices (23 percent).

**Chart 8. Type of fraud experienced**

(\% of participants – frequency 159)

<table>
<thead>
<tr>
<th>Fraud Type</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cybercrime</td>
<td>20%</td>
</tr>
<tr>
<td>Asset misappropriation</td>
<td>20%</td>
</tr>
<tr>
<td>Foreign official bribery or corruption</td>
<td>15%</td>
</tr>
<tr>
<td>False or fictitious vendor invoices</td>
<td>15%</td>
</tr>
<tr>
<td>Commercial bribery or corruption</td>
<td>10%</td>
</tr>
<tr>
<td>Financial statement fraud</td>
<td>10%</td>
</tr>
<tr>
<td>Payroll fraud</td>
<td>10%</td>
</tr>
<tr>
<td>Procurement fraud</td>
<td>10%</td>
</tr>
<tr>
<td>Vendor kickback scheme</td>
<td>10%</td>
</tr>
<tr>
<td>Money laundering</td>
<td>10%</td>
</tr>
<tr>
<td>Other</td>
<td>10%</td>
</tr>
<tr>
<td>No experience with fraud</td>
<td>10%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>10%</td>
</tr>
</tbody>
</table>

Those perceptions connected very well to a follow-up question regarding actual fraud experiences. In this context, cybercrime and asset misappropriations still led the way (Chart 8, above). In a nod to the real-world threat that fraud presents, just 25 percent of survey respondents indicated their companies had no actual experience with one or more of these illicit acts in the past 12 months. Despite the fact that three-quarters of companies in our poll had some exposure to fraud during that time period, just 38 percent conducted an internal bribery or corruption investigation.

While cyberattack incidents do not typically suggest FCPA-related violations, many of the other reported fraud experiences are frequently connected to bribery or corruption activity. That said, survey respondents identified a range of challenges to conducting internal fraud investigations, which are discussed in more detail under Chart 13.

**Chart 9. Business area at high risk for bribery or corruption**

(\% of participants – frequency 159)

<table>
<thead>
<tr>
<th>Business Area</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>45%</td>
</tr>
<tr>
<td>Accounting</td>
<td>40%</td>
</tr>
<tr>
<td>Operations</td>
<td>25%</td>
</tr>
<tr>
<td>Procurement</td>
<td>20%</td>
</tr>
<tr>
<td>Marketing</td>
<td>15%</td>
</tr>
<tr>
<td>Executive management</td>
<td>10%</td>
</tr>
<tr>
<td>Receiving</td>
<td>10%</td>
</tr>
<tr>
<td>Shipping</td>
<td>10%</td>
</tr>
<tr>
<td>Internal audit</td>
<td>10%</td>
</tr>
<tr>
<td>Warehousing and inventory</td>
<td>10%</td>
</tr>
<tr>
<td>General counsel</td>
<td>10%</td>
</tr>
<tr>
<td>Other</td>
<td>10%</td>
</tr>
<tr>
<td>No departments have high risk</td>
<td>10%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>10%</td>
</tr>
</tbody>
</table>

In our poll, 43 percent of leaders said the sales department was the highest risk area for bribery or corruption, followed by the accounting and operations units (Chart 9, above). Interestingly, 11 percent of executives said there were no departments at high risk of bribery or corruption activity in their organizations. This “no risk” belief is potentially dangerous, even if a company has strong confidence in its internal fraud mitigation procedures. For that reason, leaders should consider engaging a qualified outside party to provide a second opinion on the effectiveness of existing fraud risk policies.
TOOLS COMPANIES USE TO PREVENT AND RESPOND TO FRAUD

In addition to economic uncertainty, regulatory pressures, and attracting and retaining top employees, middle-market businesses are also wary of fraud threats. In fact, 72 percent of executives in a recent SunTrust poll of small and middle-market companies said fraud protection was a major concern for their businesses. While findings in our Global Corruption Law Compliance Survey illustrated that many companies are taking wise steps to lower their fraud risks, the data also revealed clear opportunities for improvement.

Chart 10. Fraud response strategies

A documented response strategy for bribery or corruption activity is a necessary baseline measure for any business that wants to improve its risk management. While our poll showed that two-thirds of responding companies had met this standard (Chart 10, above), it also highlighted a sizable opportunity for other organizations that have not taken this step. Not surprisingly, internal fraud investigations were most frequently handled by the general counsel or internal audit departments (35 percent and 25 percent, respectively). The only exception to that overall finding was in companies with annual revenues of $101 to $500 million, where our research showed that CEOs or CFOs were more likely to lead such investigations.
This opportunity gap closed dramatically when we linked the presence of a documented response strategy with the use of surprise audits. Within the pool of companies that used both tools, 79 percent reported they conducted unscheduled audits of third-party intermediaries and distributors, and 77 percent did surprise checks on agents and joint venture partners (Chart 12, above).

While a documented response strategy added clear value to investigations and surprise audits, our research found no similar correlation between the presence of such a plan and the use of background checks as a fraud mitigation tool. Overall, about three-quarters of survey respondents said they conducted rigorous background screenings of agents and sales representatives, and joint venture partners. The use of those checks fell off a bit when applied to distributors (69 percent) or third-party intermediaries (66 percent).
In a revealing finding, 35 percent of leaders in our poll said cultural differences or different norms for business operations were a significant external hurdle to conducting bribery or corruption investigations (Chart 13, above). From an internal viewpoint, financial or logistical limitations were the most frequently cited barriers.
In our Global Corruption Law Compliance Survey, 70 percent of all respondents reported having a whistleblower hotline for their workers. These hotlines, which are one of the most effective tools for fraud deference, were mandated for public companies under the 2002 Sarbanes-Oxley Act and enhanced under the Dodd-Frank legislation passed by Congress in 2010. In fact, the Dodd-Frank Act created a provision allowing SEC whistleblowers to receive up to 30 percent of the money the agency collects on any successful enforcement action over $1 million. Since the program began, SEC has paid out over $57 million to 26 whistleblowers.¹⁴

**Chart 14. Type of whistleblower hotline by primary industry**

(%) of participants – frequency 159

- Finance and insurance (n=25)
- Manufacturing (n=33)
- Professional, scientific and technical (n=17)
- All other (n=84)

While it was not surprising that public companies were significantly more likely to offer a hotline (90 percent versus 61 percent of firms in our survey that were privately held or private-equity owned), this gap does suggest a fraud mitigation opportunity for private companies. Manufacturing companies in our survey were the least likely to offer a whistleblower hotline, with 42 percent not providing this resource (Chart 14, above).
Despite available legal protections and potential financial benefits to whistleblowers, our survey highlighted the concerns employees have about reporting illicit workplace activity. Over half of respondents (53 percent) said they feared losing their jobs for blowing the whistle on fraud, with concerns over retaliation or paycheck loss close behind (Chart 15, above). Curiously, 16 percent of respondents said non-reporting was a “customary practice in the region,” which may connect to earlier findings about cultural differences highlighted in Chart 13.

While the major disincentives for employee whistleblower acts were internally-focused, the top corporate reasons for avoiding bribery or corruption disclosure centered around external reputation protection (Chart 16, above). Fear of bad publicity was the top reason (56 percent), though business leaders also had serious concerns about how this information could invite negative regulatory scrutiny (43 percent) or provoke a shareholder response (37 percent).
CONCLUSION

Despite a continued rise in enforcement of FCPA-related violations, our survey shows that many middle-market business leaders continue to face pressure in avoiding bribery and corruption risks as they compete in global markets. A renewed focus on individuals as an enforcement priority heightens the need for companies to take a second look at the governance, policies and investigative practices in their organizations.

In any business, tone at the top matters. This is especially true when it comes to mitigating the risk and damages of fraudulent activity. By taking a visible governance approach and organizational stance against bribery and corruption, which includes the installation of transparent control measures that hold everyone accountable for their actions, a company’s board and executive team can quickly gain credibility from both internal and external stakeholders.

Strong control policies, however, must extend beyond individuals. To help protect the enterprise from the broader array of fraud threats, controls must be designed to monitor the highest-risk operational areas (such as sales, operations, accounting and procurement). In addition, a robust control environment must also include aggressive oversight of third-party intermediaries, since illicit behavior by those parties can easily become a company liability as part of an enforcement action by regulatory agencies.

Focused internal investigations are a vital, yet likely underutilized, tool for helping companies root out bribery and corruption activity. In fact, our survey findings showed that businesses with documented fraud response strategies were much more likely to conduct such inquiries. Clearly, that gives those companies an advantage over firms with no defined plans in the event of a regulatory enforcement action. While some companies identified obstacles to developing reliable investigative tools, those reasons may not outweigh the downside risks of actual fraud, which include reputational damage, monetary loss and legal repercussions.

On behalf of RSM US LLP, we wish to thank those business leaders who took time to complete our 2016 Global Corruption Law Compliance Survey. In the coming weeks, we will issue a series of targeted follow-up articles, which will provide steps to help executives evaluate specific organizational risks and implement controls to reduce those threats.
PARTICIPANT PROFILE

(\% of participants – frequency 159)

Executive titles

Chief financial officer
Chief executive officer/President
Comptroller
General counsel
Chief operating officer
Chief compliance officer
Chief risk officer
Director of internal audit
Chairman
Assistant general counsel

Methods for conducting non-U.S. business currently or in next 12–18 months

Yes, using company managers and employees
Yes, through agents or sales representatives
Yes, through distributors
Yes, through third-party intermediaries
Yes, through joint ventures
Yes, through other means
No non-U.S. business*

* Study screened out these potential participants.
**Annual revenues**
- < $50 million*
- $51 million - $100 million
- $101 - $500 million
- $501 million - $1 billion
- > $1 billion*

**Corporate structure**
- Publicly owned
- Privately owned
- Private equity owned

**Familiarity with foreign corruption laws, such as FCPA**
- Extremely familiar
- Very familiar
- Somewhat familiar
- Not familiar

**Company's primary industry**
- Manufacturing
- Finance and insurance
- Professional, scientific and technical services
- Information (e.g., publishing, software, sound, telecommunications)
- Administrative and support and waste management and remediation services
- Health care and social assistance
- Other industries not listed above
- Management of companies and enterprises
- Construction
- Retail trade
- Accommodation and food services
- Wholesale trade
- Mining, quarrying, and oil and gas extraction
- Arts, entertainment, and recreation
- Educational services
- Real estate and rental and leasing
- Transportation and warehousing
- Utilities
- Public administration

**Involvement with company legal and regulatory compliance management**
- Solely responsible
- Share responsibility
- Regular involvement
- Good awareness and understanding
- Some awareness and understanding*
- No responsibility, involvement, or awareness*
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Victor Padilla, Director, Financial Investigations and Dispute Advisory Services

John E. Rollins, Director, Financial Investigations and Dispute Advisory Services

Rick Shriner, Principal, Risk Advisory Services

SOURCES

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GLOBAL UNDERSTANDING DELIVERED THROUGH PERSONAL RELATIONSHIPS

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