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## The UK Bribery Act: prioritising investigations into third parties

The requirements of the new *UK Bribery Act* mean effective due diligence is more important than ever for a company employing third-party contractors, suppliers or distributors. Clients seeking help with prioritising their third party investigations often ask three things: where to start, to which third parties to give most attention and how often to screen them.

The tool for answering these questions is a risk scoring system that compares a population of firms using markers of potential corruption risk. These markers might include: the Transparency International Corruption Perception Index score for the jurisdiction where the distributor conducts most of its activities; the degree to which it relies on government contracts; the length of the relationship between the firm and the distributor; its corporate ownership structure; or the scale of its business. Select three to four markers for the group of companies being ranked and then establish a grading scale to determine the appropriate level of due diligence required in each case.

### Balancing the costs of due diligence with the need for compliance

For large and medium-sized firms, with hundreds, sometimes thousands, of third parties, the cost of due diligence becomes prohibitive. The best way to manage this dilemma is by using a 'risk matrix' that addresses two assumptions of the dilemma:

1. All companies should be screened – this approach fails to go deep enough in assessing riskier companies
2. Screen everyone at the highest level – an inflexible approach which is cost prohibitive and potentially disruptive to operations

If most companies were to graphically display the results of their risk scorings in a distribution, they would resemble a bell curve. Somewhere between 10-15 percent of third parties would fall into the low risk category; the vast majority, 70-80 percent, into the moderate risk category; and the final 10-15 percent would be high risk.

By matching the level of due diligence to the perceived risks of each third party, the companies can better balance best practices in compliance while managing costs to the bottom line.

### Implementing a reasonable and proportionate response

The majority of large and medium-sized companies have invested in developing anti-corruption policies but the challenge is to get third-party contractors, suppliers and distributors to comply. Kroll has developed a Third Party Screening program, which enables clients to acquire and manage data about their vendors, agents and suppliers through a secure, online platform. A client dashboard allows clients to sort third party data by risk factors, including risk score, geography, industry type, and other emerging threats, to help determine the appropriate level of due diligence.

### Using compliance as a competitive advantage

We have seen several due diligence investigations where, in addition to supporting regulatory compliance, the information gathered has helped clients create or improve business relationships, for example:

- to secure an exclusive arrangement with an agent by showing that other agents in the region had serious reputational issues;
- to obtain better terms from a distributor to account for its moderately higher risk profile; and
- to press for changes in the ownership structure at a potential distributor;

The *Bribery Act* is here to stay and businesses need to adjust accordingly to its place in corporate life. Using a risk matrix, matching diligence to actual risks, and employing information from diligence research as a competitive tool is the best way to implement a compliance structure that is both effective and economical.

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