

AN ETHISPHERE INSIGHTS REPORT SERIES

# 2020 WORLD'S MOST ETHICAL COMPANIES: LEADING PRACTICES AND TRENDS



VOLUME TWO:  
**Third-Party Risk  
Management**

June 2020

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# INTRODUCTION

In today's global business landscape, companies are faced with an array of strategic, security, operational, legal and reputational risks. In addition to having subsidiaries and employees around the globe, most companies have a complex web of third-party partners.

Engaging business partners can be an essential component of maximizing business opportunities. Partnerships can offer cost savings, efficiencies, regional insights, and valuable business connections. In some geographies, partners are legally required for doing business. That said, third parties also present significant risks. More than 90 percent of all U.S. Foreign Corrupt Practices Act enforcement actions over the last 40 years have included some form of third-party misconduct.

Compliance cannot stop at the four walls of the business. Leading companies expect the same level of integrity and ethical business conduct from third parties as they do from their own employees. Achieving that goal is top of mind for compliance teams.

Managing third party risk has always been a complex task and the pandemic has made the job more difficult. Disruptions in global supply chains and logistical and workforce challenges have required companies to onboard new partners very rapidly. Governments are more involved in supply chain activity, increasing the opportunity for improper payments to be demanded or offered.

What are the most effective ways to gain insight into a partner's reputation, relationships, and activities to ensure they align with your requirements and expectations? Ethisphere data suggests that companies are thinking creatively and investing significant resources into third-party risk management programs.

In this report, we highlight several best practices for third party engagement based on data and insights from our work with the World's Most Ethical Companies®, and experience working with global companies. We begin with a focus on pre-contract onboarding and due diligence and then move to a discussion of post-contract engagement.

We hope you can use this report to consider ways in which you might strengthen your own third-party risk management process.

*More than 90 percent of all U.S. Foreign Corrupt Practices Act enforcement actions over the last 40 years have included some form of third-party misconduct.*



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# The World's Most Ethical Companies Data Set

Each year, companies applying for Ethisphere's World's Most Ethical Companies designation provide detailed information on the structure and implementation of their ethics and compliance program as well as their governance structure, ethical culture, corporate reputation, and corporate social responsibility initiatives.

Grounded in Ethisphere's proprietary Ethics Quotient<sup>®</sup>, the World's Most Ethical Companies assessment process includes more than 200 data points on culture, environmental and social practices, ethics and compliance activities, governance, diversity, and initiatives to support a strong value chain.



The process serves as an operating framework to capture and codify the leading practices of organizations across industries and around the globe.

This is the 14th annual recognition of companies demonstrating their dedication to advancing integrity while enhancing business performance. In 2020, 132 honorees were recognized, representing 51 countries and 21 industries.

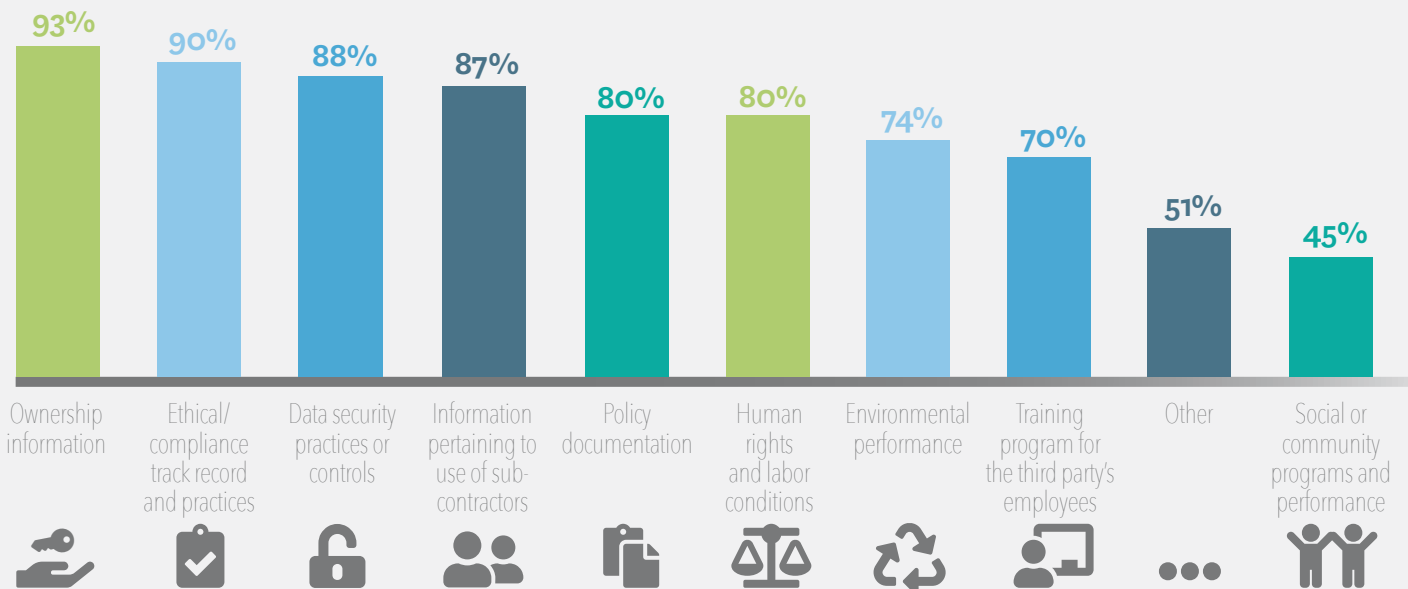
# ONBOARDING:

## ADDRESSING THIRD PARTY SELECTION AND COMPLIANCE COMMITMENTS

### Due Diligence: The Expanding Scope of Review

Most companies perform risk-based due diligence before entering a relationship. In addition to being a regulatory expectation, it is a business necessity. Appropriate screening and vetting allows companies to make informed decisions about the suitability of a potential partner and mitigate, on the front end, any risks inherent in the relationship. Not surprisingly, among World's Most Ethical Companies honorees, third-party due diligence is ubiquitous. It is a near universal practice among honorees to perform some risk-based due diligence focused on ethics and compliance before onboarding a third party.

*What information, if any, do you consider in your ethics and compliance due diligence of third parties? Please select all that apply.*



Among the more common issues considered as part of the process are:

- Ownership information
- The use of subcontractors
- The company's ethics and compliance track record

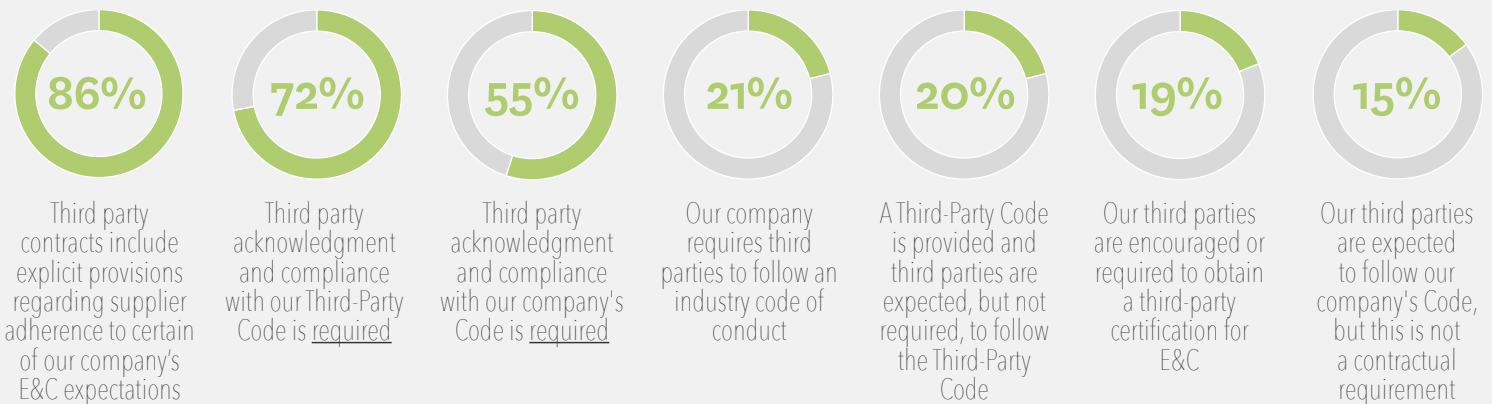
Historically, these are factors that have been the primary focus of the process and while they remain core, we are seeing an expansion of the scope of risks companies are assessing. Honorees are taking a holistic approach and focusing on a broad, inclusive set of risk factors, including data security, labor, human rights, the environment, and social responsibility—issues that are increasingly important to both internal and external stakeholders.

Due diligence is an area where a cross-functional approach is particularly helpful. Bringing a wide range of risk owners into the conversation when designing a due diligence process leads to a more complete risk profile and better insight into a third party's fit for the business.

### Third-Party Codes of Conduct

Companies use several methods to require partners to adhere to ethical business practices, the most common among them being the inclusion of explicit compliance requirements in third-party agreements. This is borne out by our data, with 86 percent of honorees noting that they do so.

*How does your company establish its E&C expectations and requirements for third parties that pose a material compliance, ethics, and/or reputation risk? Please select all that apply.*

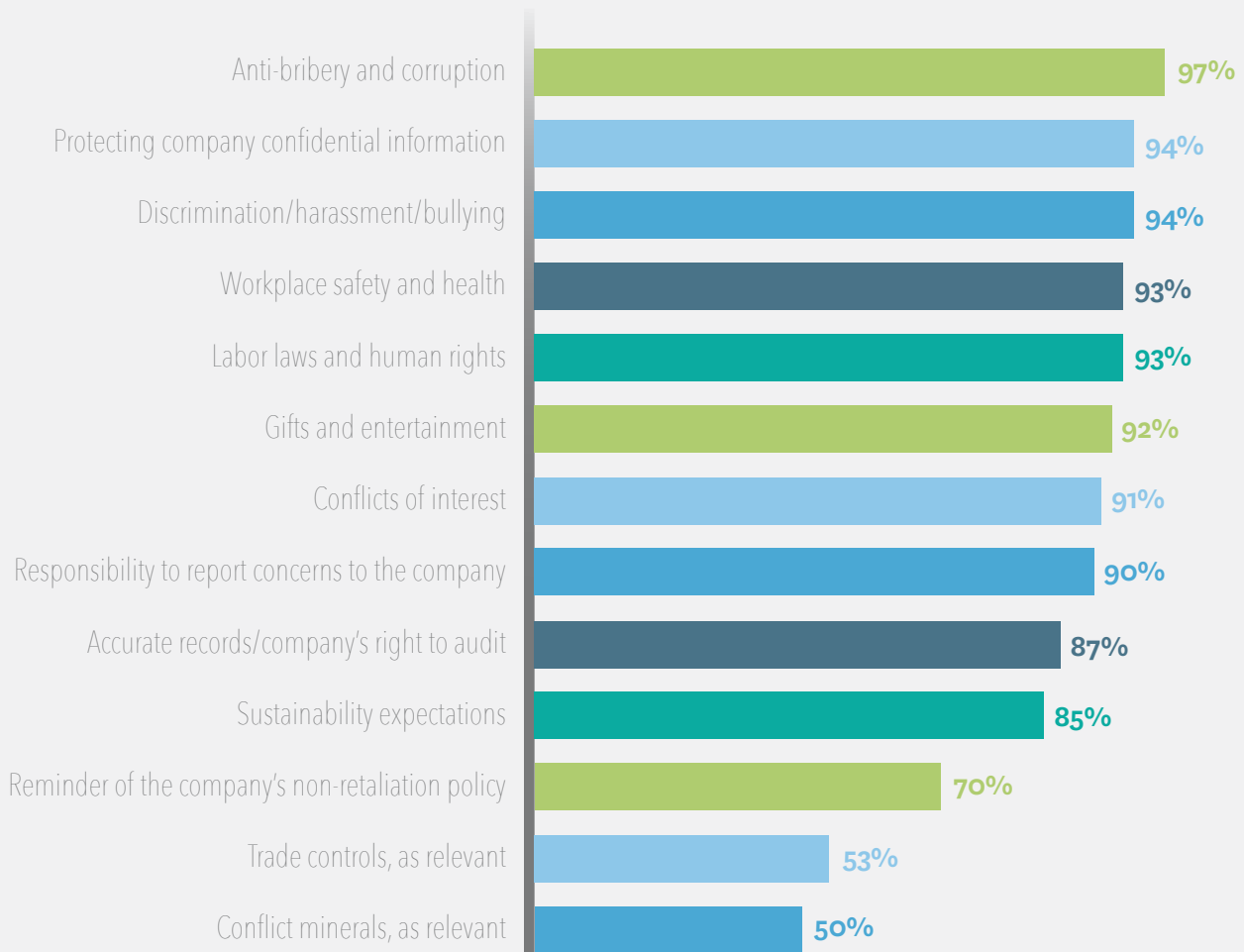


Requiring adherence to the company Code of Conduct or a Third-Party Code, and making that part of the third-party agreement, is another way that companies set clear expectations and requirements for ethical business practices. Codes also form the basis of third-party communication and training. Ninety percent of honorees maintain a specific Third-Party Code for partners that pose a material compliance risk. Like their internal codes, third-party codes are increasingly streamlined and values-based and written in plain language to enhance reader comprehension.

While most companies surveyed—seven out of ten—translate their Third-Party Code into multiple relevant languages, 23 percent do not, even though the business partner community is not monolingual. This is an area ripe for improvement. If business partners cannot read the Code, they are unlikely to follow it.

At 97 percent, anti-bribery/anti-corruption is the most often covered risk area in Third-Party Codes. Consistent with what we are seeing in terms of due diligence focus, companies take a broad, inclusive approach to Codes, including requirements related to labor, human rights, and sustainability, along with other typical compliance topics.

***Which of the following risk areas are included in the Third-Party Code? Please select all that apply.***



# ENGAGING WITH THIRD PARTIES:

## MANAGING THE RELATIONSHIP AND COMPLIANCE OVERSIGHT POST-CONTRACT

Today, due diligence and the contracting process are only first steps in the life cycle of a relationship. Third-party risk management cannot be put on the back burner after the onboarding process, and in fact we are seeing more companies pivot to focus more resources on post-contract management and oversight.

The need for deeper, systematic engagement after onboarding has become more urgent as third-party networks have grown in complexity. Relationship duration is another factor to consider. Many business relationships are long term and risks change. In a [survey](#) published by Kroll, more than 50 percent of respondents reported that they frequently encounter serious issues post onboarding. When asked to explain why, the most common explanation was that the issue had not existed at the time of onboarding.









[Regulatory guidance](#) also is clear that companies are expected to engage in some form of ongoing monitoring. This can take multiple forms, including communicating about compliance expectations and requirements, training, and auditing, among others. Honorees view third party risk management through a wide lens and build these activities into the life cycle of the relationship.

### Communication and Training

Messages are more likely to stick when communicated often and clearly. Recognizing this, honorees have made communication part of the regular course of business with any partner that could pose a material risk.

Among World's Most Ethical Companies honorees, 55 percent target communications initiatives at third parties. In addition to that, six in ten go further and provide them with ethics and compliance training assistance and resources. Taking a risk-based approach and leveraging technology, these companies are finding innovative and cost-effective ways to accomplish this, often mirroring the same types of training and resources given to employees, including microlearning and interactive content.

### *How Companies Engage with Third Parties*

-  Blogs
-  Case studies
-  Success stories
-  Video updates from senior leaders
-  Linked-In communities
-  Social media platforms
-  Burst training/microlearning
-  Partner surveys

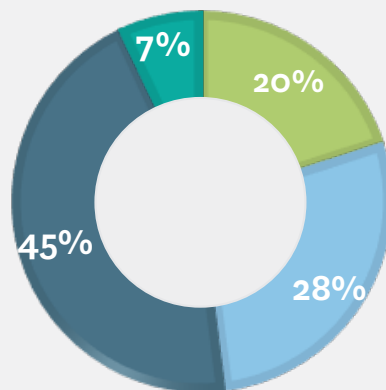


## Monitoring and Auditing

Monitoring a third party’s performance gives companies the ability to keep up with ever-changing risks. It also sends a strong message that the company takes ethics and compliance seriously. And while companies have long evaluated partners to determine if they are meeting business expectations, today we see companies including ethics and compliance metrics in the process as well.

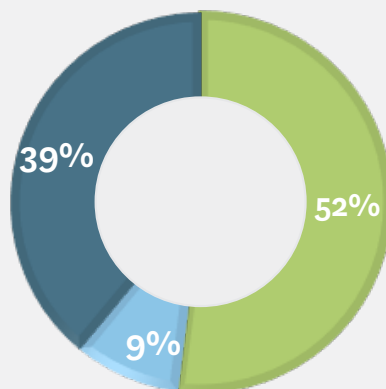
Among WME honorees, 93 percent report that they perform an assessment of whether a third party has the capability and controls to meet the ethics and compliance requirements in their contracts for at least some risk areas. This provides the company with a more complete picture than simply relying on due diligence, and it allows the company to get ahead of issues that could escalate into serious problems affecting profitability and reputation. Similarly, nine out of ten report that they perform formal, risk-based audits as well.

*Do you conduct an assessment to determine if the third-party has the capabilities and controls to meet the ethics and compliance requirements stated in their contract with your organization?*



- For all risk areas
- For most risk areas
- For some risk areas
- No

*Does your company conduct periodic audits of third parties to ensure compliance with ethical and legal standards?*



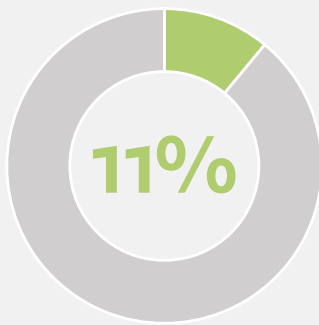
- Yes, for high-risk third parties
- No
- Yes, but only for certain risk areas

In today’s technology-driven world, companies are moving from manual processes and spreadsheets to automation. Using technology in combination with compliance “know how” to monitor third parties can be cost-effective and scalable, and we see companies taking advantage of technology to provide more real-time insights into third-party risk.

## Performance Evaluation

We see this trend of deeper engagement emerging in formal third-party performance evaluations as well. More than one-third of honorees use a “score card” or other written evaluation tool that specifically includes ethics and compliance criteria. Another 55 percent say ethics and compliance is a topic of discussion during the evaluation. Looking at the full picture of a partner’s performance reduces risks, of course, but it also drives improvement in the relationship.

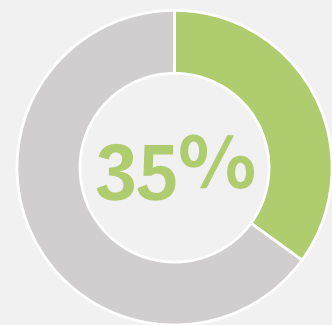
*Which of the following best describes how your organization evaluates the performance of a supplier or third party?*



They are solely evaluated based on their business performance.



We discuss some ethics and compliance issues during our business performance reviews.



We have a third-party scorecard or written evaluation that specifically includes their ethics and compliance performance.

## Focus on Sustainability

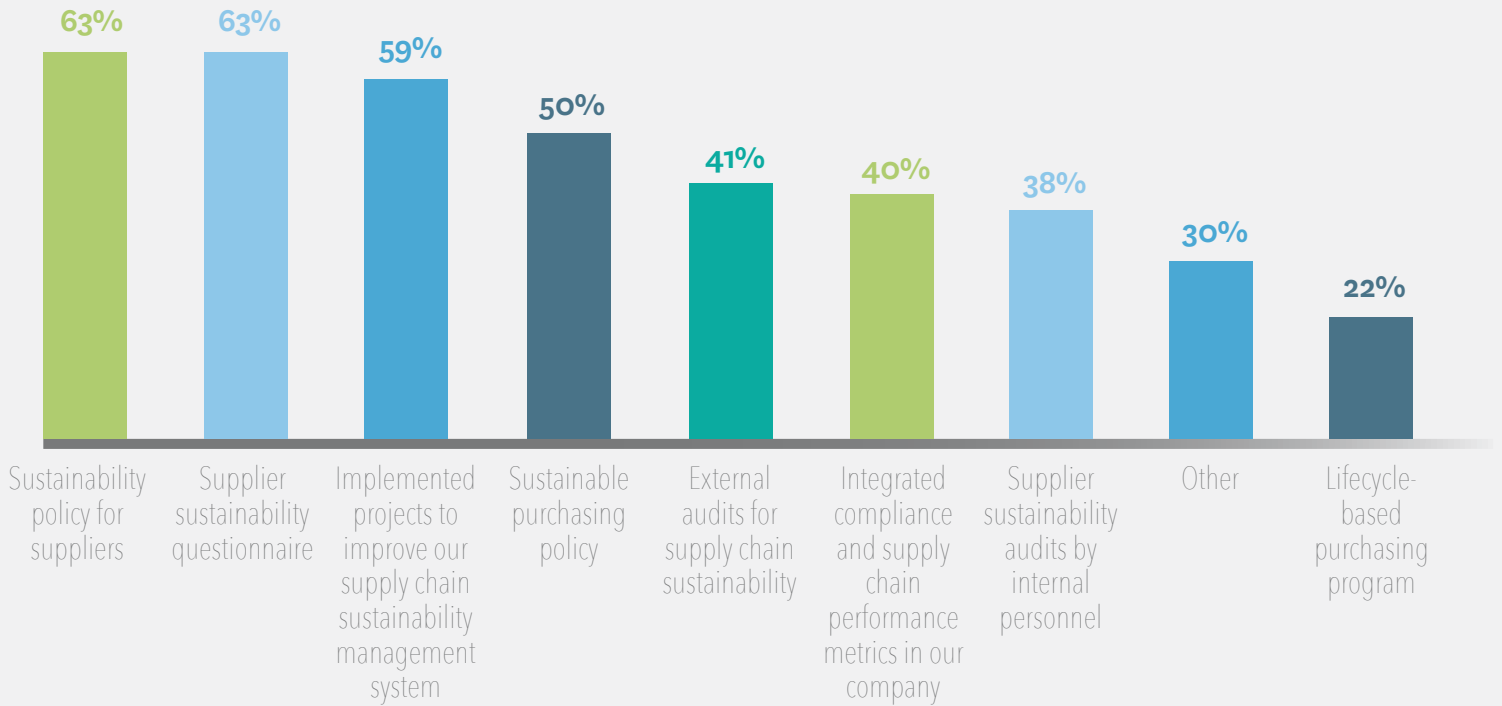
The connection between financial performance and a company’s environmental, social and governance practices has been well documented. Investors and other stakeholders are demanding information on corporate sustainability. For companies, this is creating incentives to manage sustainability not only internally but also through the value chain. This year’s honorees are at the forefront of incorporating social responsibility into their supply chain strategies.

Nearly **90 percent** communicate with third parties on sustainability and **77 percent** do so annually.

**6 out of 10 honorees** engage in capability-building to help third parties develop a sustainability or social responsibility program, such as providing training, workshops, and other resources.

**97 percent** are taking additional measures to manage third party sustainability risk, ranging from requiring compliance with third-party sustainability policies, to including sustainability in due diligence, as highlighted above, to auditing third-party sustainability performance.

*What measures has your company taken in order to manage sustainability-related risks of your supply chain? Please select all that apply.*



## CONCLUSION

Companies are facing a challenging time. We hope these insights on third-party risk management programs are helpful as you continually improve your programs. The next volume of this Insights Report series will focus on best practices in training and communications.

# RELATED ETHISPHERE RESOURCES



## World's Most Ethical Companies

To learn more about the honorees, the process to apply, and other insights, visit [www.worldsmoethicalcompanies.com](http://www.worldsmoethicalcompanies.com)

## Leadership Insights

Visit Ethisphere.com, the Global Ethics Summit website, and Ethisphere Magazine to download eBooks and data reports, and hear from senior leaders in webcasts, podcasts, and articles.

- [A Guide for the New Ethics and Compliance Leader](#)
- [Q&A with Microsoft's Brad Smith: Engagement Builds Trust](#)
- [3M Latin America: Third Party Due Diligence Protection](#)



## BELA Member Hub

Members of the Business Ethics Leadership Alliance (BELA) have access to a broad range of resources, including:

- [Supplier Expectations Principles](#), contributed by Archer Daniels Midland Company
- [Supplier Integrity Guide](#), contributed by General Electric
- [Highlights from Third Party Due Diligence Presentation](#), a roundtable hosted by TATA Steel

**BELA members:** [Sign in](#) to the member hub to access these resources.

**Not a member?** [Learn more >](#)

## Ethisphere Assessments

Collaborate with your third parties to build capabilities and reduce risks. Ethisphere assessments are scalable and offer immediate insights and links to resources to guide improvements.

- [Ethics and Compliance](#)
- [Anti-Corruption](#)
- [Cybersecurity](#)
- [Trade Secret and Intellectual Property Protection](#)

# ABOUT ETHISPHERE

Ethisphere is the global leader in defining and codifying the standards of ethical business practices that fuel corporate character, marketplace trust, and business success. Ethisphere has deep expertise in advancing business performance through data-driven assessments, benchmarking, and guidance.

Our Ethics Quotient data set enables the ability to benchmark against the ethics and compliance practices of leading companies. We also work with the world's largest companies to assess and enhance ethical culture capital with the insights from our culture assessment data set, which represents the views of more than five million employees worldwide.

Ethisphere honors superior achievement through its [World's Most Ethical Companies](#) recognition program and by showcasing best practices in [Ethisphere Magazine](#) and at [global events](#). We also facilitate the [Business Ethics Leadership Alliance \(BELA\)](#), a global community committed to solving the big challenges of business integrity together.

More information about Ethisphere can be found at:  
[www.ethisphere.com](http://www.ethisphere.com)