Mitigating High Risk for High Return
Managing Third Party Relationships to Support Compliance
March 2018

Objectives

• Vetting third-parties should be standard practice prior to engagement.
• Maintaining confirmation of third-party compliance throughout the tenure of the relationship is equally important and poses a challenge.
• Suggestions for ongoing vetting, training and maintaining compliance profiles for your third parties, and thoughts on avoiding the complacency pitfall.

Third Parties are a cost-effective and logical business practice when managed accordingly.
Agenda

- What are Third Party Relationships
- Risks regarding Third Parties
- With what do we want third parties to be compliant?
- Costs of non-Compliance by Third Parties
- Business Justification
- Risk Mitigation
- Ongoing Engagement
- Two Front Approach
- Red Flags
- Challenges and Opportunities

Third Party Relationships

- Non-employee relationship
- Consultants, Representatives, Brokers, Distributors etc.
- Suppliers
- Required for international business in today’s global world
- Usually operate at a distance with little or no daily interaction
- Usually one point of contact at your company

At least some of the benefit is in our one-point engagement with the third party (one-to-many)
Risks regarding Third Parties

• Conflicts inherent in the relationship due to its nature

• Slightly misaligned
  – Their objective is payment for themselves
  – Your objective is success for your company

• We try to “leverage” our third parties because that is what brings us value

Compliance with What

• Specific to non-US third parties
  – US Regulatory requirements
  – Non-US regulatory requirements
  – Inter-American Convention against Corruption
  – OECD
  – In-Country and Other Country

• For all -
  – Compliance with US Ethical Standards and the US lens applies

Moral Conduct / Ethical Conduct / Legal Conduct
Ethical Considerations

• Cultural
  – From which cultural perspective will the relationship be seen

• Economic
  – Hardship does not justify breaching ethical considerations

• Moral
  – Is a facet but morality is not the measure

• Navigating can be tricky for us as we manage third parties and requires vigilance

Costs of non-Compliance

• Fines
• Lost business
• Reputation
• Employee Morale
• Individual cost
  – Criminal/Civil
Strong Business Justification

• Knowing the cost, invest in the justification
  – Regardless of the type of third party

• Should have a strong business alignment

• Inaccurate assessment will put you and third party in compromised position, which may lead to non-compliant behavior

• Third parties with incompatible skill set or code of ethics may be high risk

Risk Mitigation Through Vetting

• One process applied without exception
• Example:
  – Application with basic info
  – References (financial and professional)
  – Due Diligence (search tools/internet/"lists")
  – Interview
  – Monitor responsibilities clear and unequivocal
• Reputation/Experience

Experienced Consultants know how to respond to interview questions
Ready, Set, Consult

- Once they are vetted, what is the oversight provided
- Ongoing support?
- Agreement “Monitors” evaluation
- Cultural, Language and even time zone differences must be manages
- Software to manage the process with ongoing awareness/Search tools
- Periodic trainings/info sessions
- Consider “360” for Third Party feedback
- Choose their activities appropriately for their role

Avoid “black box” relationship

Two-Front Approach

- Your company point of contact to Third Party
- Your role to Third Party

- Training to your company point of contact
- Training direct to Third Party

- Regulatory requirements
- Your company requirements

For Third Party Compliance use belt/suspenders
A few Red Flags

- Eager to please
- Over emphasis on relationships
- Is there real value?
- Indications of ability to be compromised
- Are they too good?
- In the international world, are there outside influences on third party behavior?

Challenges and Opportunities

- Balance professional requirements with engaged management
- It isn’t always black and white and sometimes requires ongoing communication
- Triangulate information
- The human side of the slippery slope
- You don’t know what you don’t know

Most consultants are inherently good, and most want to do the right thing – watch the conflicts
Thoughts for Challenges

• Distance – Monitors must be given flexibility to be engaged and it will cost

• Culture – Training and sensitivity is important and a valuable investment

• Language – If we don’t speak the language, we need to have a trusted translator

• Objective observer available if possible

Time + Commitment = Success