Our survey of over 3,000 board members, managers and their employees across 36 countries highlights three key issues. Executives and their teams are under increased personal pressure to produce growth and profit in challenging conditions; unethical conduct, including fraud, bribery and corruption, appear to persist in this environment; and compliance programs are not working well enough to manage the risk effectively.

Feeling the pressure

According to a majority of respondents, management is under increased pressure to deliver good financial performance. Pressure to cut costs is being felt personally — 59% of respondents were aware of salary or bonus reductions in their business. Yet there is little optimism among our respondents that market conditions will improve over the next year. So, in this environment, how does management deliver improved performance? Do they expand into rapid-growth markets where corruption risk is elevated, review their cost base further, or take a greater risk and report distorted financial performance?

Strain on ethical behavior

One in five of our respondents have seen financial manipulation of some kind occurring in their own companies. Management is clearly aware of this issue: 42% of board directors and senior managers are aware of some type of irregular financial reporting in their organization. In addition, more than a third of respondents believe that companies in their countries often reported their financial performance as being better than it was. While this isn’t necessarily consistent with our experience in dealing with senior executives, if these perceptions are reflected in actual conduct, this is deeply troubling.

The risk from misreporting is compounded by a significant proportion who see bribery and corruption as prevalent in their country or an acceptable business practice. Fifty-seven percent of respondents feel that bribery and corruption is widespread (67% in rapid-growth markets) and more than a quarter of sales and marketing respondents consider offering personal gifts or services to win and retain business as acceptable — almost double that of all respondents.

Yet at the same time our survey indicates that many executives are in denial — thinking fraud and corruption are problems faced only by other companies or in other sectors.

- 42% of board directors and senior managers are aware of some type of irregular financial reporting in their company.
- 57% of respondents feel that corrupt practices are widespread in their country.
- 49% of sales staff do not consider their company’s anti-corruption policy to be relevant to their work.
Compliance programs — always more to do

Compliance programs aimed at deterring unethical conduct are still not working as effectively as they should. Our survey highlights four key issues for concern:

- **Perception gap between management and employees** — 67% of directors and senior managers believe their commitment to anti-bribery and anti-corruption policies has been communicated strongly, compared with only 44% of employees.

- **Relevance and breadth** — only 38% of respondents agree that their compliance policy is relevant and effective in their markets. Fewer than half of respondents know that their company’s policy contains guidance on gifts or hospitality, and less than a quarter know of policies on political contributions.

- **Maintaining competitiveness** — more than one in six respondents perceive that following their compliance policy very closely harms their competitiveness in the market.

- **Keeping pace with increased risk** — only a third of respondents feel their company’s efforts to combat fraud, bribery and corruption have increased over the last few years. Our survey also finds that some key control areas are not getting the focus that they should, including checks on third parties and questions relating to the reliability of revenue recording.

Navigating the risks

Companies should be under no illusion about the risks they face as bribery and corruption issues around the world continue to challenge even the most robust compliance organizations. We have observed the following common features among those who manage it most effectively. In each case, they:

1. **Own the problem**
   Boards and senior management acknowledge that the risk is real for them and their business. Compliance is not a tick-box exercise.

2. **Deal with the issues**
   Teams across businesses, functions, geographies and grades understand that the risks are relevant to them and their work. Compliance policies for local teams do not mean diluting the program or bending the rules.

3. **Communicate the risks**
   The costs of fraud, bribery and corruption are understood at an individual level. Behavior is not only limited by controls, but is driven by a common culture. These companies are not afraid to share information on the number of people sanctioned for ethical breaches.

4. **Communicate the benefits**
   Managing the risk of fraud, bribery and corruption, is understood to help the business succeed in controlling markets. In merger and acquisition activity, forensic pre-acquisition due diligence — covering, for example, the risk of fraud, corruption and money laundering — is undertaken to help ensure a successful transaction and minimize the risk of reduced investor confidence if things go wrong.

5. **Focus resources**
   Squeezing efficiencies out of shrinking resources is a necessity in today’s environment. These businesses identify specific risks and focus resources, including leveraging forensic data analytics.

6. **Ask questions, demand answers**
   Management is not afraid to ask difficult questions, knowing that what is hidden cannot be ignored. These companies exercise their audit rights on third parties and insist that their suppliers respond regularly to requests for compliance-related information.

Learn more

The Ernst & Young Fraud Investigation & Dispute Services practice has global reach. For more information about the survey and how Ernst & Young can help your organization to navigate the risks of fraud, bribery and corruption, please go to www.ey.com/fids