

# Mitigating High Risk for High Return

## Managing Third Party Relationships to Support Compliance

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### 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.

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### 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



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## 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)

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## 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



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## 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



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## 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

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## Costs of non-Compliance

- Fines
- Lost business
- Reputation
- Employee Morale
- Individual cost
  - Criminal/Civil



The New York Times



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## 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

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## 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

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## 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 managed
- 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

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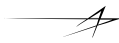
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## Two-Front Approach



- 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

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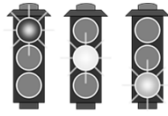
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## A few Red Flags

- 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?



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## 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

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## 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



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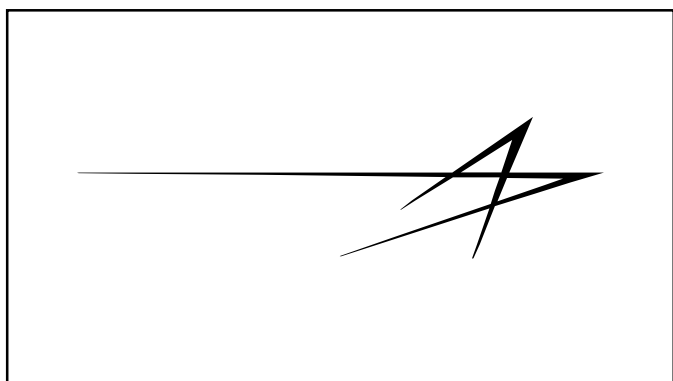
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