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Methodology for conducting third-party risk-based due diligence in the construction and civil engineering industry

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Abstract

This paper aims to propose a methodology for conducting third-party risk-based due diligence in an engineering and construction company. A case study will present the methodology for a multinational firm. Due diligence is necessary and often mandatory, depending on the client or project. It protects a company in case of an ill-intentioned third-party conducting misconduct while under contract or relationship with the company, but has been overlooked in many industries, resulting in ethics and compliance-related misconduct. This study reveals that risk-based due diligence methodology has been widely applied and discussed by brokers and accountants, but that no research has verified whether the methodology applies to the construction and engineering industry. The case study also highlights the importance of knowing and understanding the company's business model, its appetite for risk, and its global interactions within its industry. The proposed methodology enables risk assessment and due diligence covering integrity-related risks among third parties. By adapting the model to their reality, construction and engineering companies

manage third parties' risks related to corruption and bribery, antitrust and competition, human rights, conflicts of interest and compliance with regulations. The expected result of the methodology is a risk-tailored and resource-efficient process for conducting third-party due diligence in the construction and engineering industry.

KEYWORDS: Integrity, Construction, Engineering, Third party, Risk-based due diligence

Introduction

Construction and engineering companies face major challenges and must adopt strict compliance measures. For many industries, corporate social responsibility has become a key success factor (Liao, Xia et al. 2017), forcing companies to implement a company-wide ethical culture, which is extremely challenging for them. To regulate their activities, these companies develop and draft codes of conduct and ethics, and must proceed with integrity and according to their codes of ethics in their business activities, in order to walk the talk. In the present study, four codes of conduct and ethics obtained from major Canadian construction and engineering companies were used to identify the main integrity-related risks in industry (SNC-Lavalin 2017, Stantec 2017, Cima+ 2018, WSP 2018). Corruption and bribery, collusion and competition, conflict of interest, conformity to tax laws and sanctions, and human rights were identified as the five biggest integrity risks.

Organizational identity is often defined through these codes, and when the identity is congruent with the company's reputation, trust develops among stakeholders and the general public (Joshi and McKendall 2018). The importance of partnerships in the construction and engineering industry is gaining increasing attention. The size and complexity of projects will often force organizations to combine their assets to form partnerships, which while increasing the projects' performance, also increases third-party-related risks (Gadde and Dubois 2010, Sedita and Apa 2015). Risk-based due diligence is therefore de rigueur for construction and engineering companies wanting to stay competitive and protect their assets. Organizations that only focus on minimizing or reducing their risk management-related costs tend to experience a higher stock price volatility, while those that adopt a comprehensive approach, which takes both positive and negative impacts into account, have a higher firm value (Ittner and Keusch 2017). Construction and engineering organizations have a lot of business partners due to the projects' unicity. Indeed, unlike manufactured goods and others, construction projects are all unique with their own design, team, suppliers and constraints. This means that construction companies have shorter-term partnerships while having more business partners compared to other industries.

The global construction market is expected to grow by 8 trillion USD by 2030, for a total of 17.5 trillion USD (Oxford Economics 2015). It is estimated that by that year, construction will represent almost 15% of the global Gross Domestic Product (GDP), as compared to 12.4% in 2014. It has been argued that the construction industry is prone to corruption (Hess 2018) and that construction companies working abroad rely mostly on international third parties in new markets (Watson and Serra 2016). These International third parties do not necessarily share the same perspective with respect to business behavior, morality and ethical responsibilities as Western stakeholders, thus resulting in a greater risk to not comply with the company standards (Hamilton and Knouse 2001, Gaughan and Javalgi 2018).

Third-party-related incidents are on the increase, and impact companies' reputation and finance (Watson and Serra 2016). In a 2016 global survey grouping 170 organizations, over 85% of the respondents claimed to have faced at least one disruptive incident attributable to the actions of third parties in the preceding 2 or 3 years (Deloitte 2016). In the same survey, over 90% of the respondents had a low to moderate levels of confidence in technology used to manage third-party risk and over 85% had a similar level of confidence for the quality of the risk management process. In this context, this research aims to contribute to the literature by proposing a methodology for conducting third-party risk management among construction and engineering companies, using a format based on the financial sector.

The content from an internal survey conducted in a multinational construction and engineering firm about third-party risks will be used (Roy, Desjardins et al. 2021). The survey was conducted among integrity, ethics and compliance experts at SNC-Lavalin (referred to as ‘’the company’’) and highlighted the need for an improvement of the company’s business partner compliance process. A business partner can be defined as an entity who has some involvement with another entity’s business activity. The process, in the form of a tool, was mostly designed to cover corruption risks without necessarily integrating those related to integrity. It was implemented in 2014 following corruption misconducts and prosecutions in Canada, Libya and Bangladesh. Thousands of potential partners are screened annually using the business partner compliance tool. The study was motivated by a desire for continuous improvement. The company is a major player across five industries (Infrastructure, Mining & Metallurgy, Clean Power, Oil & Gas, and Nuclear), and has offices in more than 50 countries, with worldwide projects. With the company having over 50,000 employees, the business partner compliance tool needs to be effective and comprehensive since people with different functions, seniority and culture will use it, while assuring the company’s integrity. A case study of the company will demonstrate the risk-based due diligence methodology.

Literature review

Implementing a corporate ethical culture

Corporate culture is one of the most influential factors on decision-making and on strategy (Schein 2010). It is linked to leadership and the organization structure. While culture can represent a competitive advantage, it can also contribute to destructive behaviors such as excessive rivalry, intolerance of failure, secretiveness, propensity for risk taking and persecution of whistle-blowers (Drew, Kelley et al. 2006). Companies face many leadership and organizational challenges when implementing an ethical culture.

Leadership often has a dark side (Conger 1999, Johnson 2018), and in fact, the skills and traits that push a leader to the top may also lead to the adoption and implementation of unrealistic and inappropriate strategies (Vries 1993). Charismatic and visionary leaders are often less willing to entertain competing viewpoints, which results in a sense of omnipotence due to uncritical and blind obedience of their "followers" (Khurana 2002). However, a 2004 study demonstrated that charismatic leadership enhances support from external investors, especially in difficult economic conditions (Flynn and Staw 2004). Researchers suggest seven leadership mechanisms to establish an ethical climate in organizations (Grojean, Resick et al. 2004):

1. Using values-based leadership;
2. Setting an example;
3. Defining ethical conduct;
4. Providing feedback and support regarding ethical behavior;
5. Recognizing and rewarding behaviors supporting organization's values;
6. Considering individual differences among employees;

7. Establishing leadership training.

Adopting an appropriate organizational structure to implement an ethical culture is primordial. As an example, the roles of CEO and chairman used to be (and are still so in many organizations) combined, leading to a large number of insiders on boards (Drew, Kelley et al. 2006). Some authorities emphasize the positive effects of a combined role, such as specific knowledge and commitment to the company's affairs, but a study by Uzan et al (2004) revealed a correlation between the increasing number of outsiders on a board and the reduction of corporate wrongdoing by analyzing fraud incidents in the United States from 1978 to 2001 (Uzun, Szewczyk et al. 2004). The common pattern in many corporate scandals is the abuse of power at the top. Therefore, the case has been made for a greater decentralization of power and a more interactive and democratic management approach. Participatory systems are ethically better than autocratic organizations (Collins 1997). While participation across the organization is a factor enabling sustainable governance, it is important not to completely sacrifice leadership for inclusivity (Belle 2016). Challenges regarding participatory governance are mostly related to maintaining a balance between inclusivity and efficiency (Petschow, Rosenau et al. 2017). Indeed, inclusivity would require organizations to assess which stakeholders participate, depending on the reasons for initiating the participatory procedure. Thus, to maximize both efficiency and inclusivity, corporations should start by developing inclusivity procedures for common decisions or events and decide which business units will need to participate in which context and to what extent they should participate.

Risk-based due diligence

Risk-based due diligence is defined as the process by which an organization determines the level of due diligence necessary based on the business partner's level of risk (TRACE 2018). Third parties include sales agents, lobbyists, business development, consultants, customs or visa agents, joint venture and consortium partners, etc.

Third-Party Risk Management

In today's business world, companies must deal with third parties, as they will often need to team up with others in order to be competitive and win major projects. Such partnerships carry many external risks which are complicated to manage for companies. Six steps are suggested for an effective third-party risk management program (Ernst & Young 2018):

1. Establish a governance structure to set the tone from the top;
2. Establish the scope of third parties for your organization;
3. Establish risk models according to the organization's risk aversion;
4. Establish the organization internal regulatory framework for partnerships and risk management;
5. Execute the process;
6. Improve the process constantly with reports, technology and research.

Companies need to periodically review and improve their process, especially with respect to risk models since data, the regulatory framework under which they operate and the geopolitical situation are constantly evolving. The risk modeling process usually comprises three steps (Loosemore 2006):

1) Risk identification. The first key success factor (KSF) is the combination of many different analyses (Gudienė, Banaitis et al. 2014). Past projects, interactions between company stakeholders and activity breakdown are all part of this KSF (Liu, Zhao et al. 2016). The second KSF is to identify which risk belongs to whom. The accountability is divided among

the partners and it provides a better understanding of which third-party should manage each risk identified (Iqbal 2015). Risks need to be properly identified before a decision is made. To this end, objectives and performance indicators must first be identified (Loosemore 2006). While identifying hundreds of risks could seem impressive, a shorter list of risks is in fact recommended in order to limit the administrative workload (Fraser and Simkins 2016).

2) Risk assessment. To include uninsurable risks in the assessment, a comprehensive approach is needed. The first KSF in this step is the inclusion of intuition, professional experience and personal judgment in the risk assessment process (Taroun 2014). Through an individual interview or survey, experts can share information they would not be comfortable sharing in a group (Fraser and Simkins 2016). The second KSF, related to the emergence of sustainability issues, is the assessment of uninsurable risks and using a holistic approach (Drennan 2004, O.C. Ferrell 2015). Third-party risk assessment often covers more than one risk, and an organization can assess the overall third-party risk or each risk separately (Table 1) (NAVEX Gobal 2018).

3) Risk mitigation. The first KSF in this step is choosing the appropriate response to the risk. Possible actions include avoiding/eliminating, transferring, reducing, exploiting (positive), sharing or accepting the risk (Mhetre 2016). Another KSF consists in properly evaluating the company's risk management performance by carrying out regular internal audits (El-Sayegh 2014). For third-party risk management, the organization carries out due diligence before choosing how to respond to the risk. Due diligence allows to dig deeper into the potential partner's investigation according to its risk assessment.

Risk-based approach

The level of scrutiny required to be confident that a company is engaged in a legitimate partnership varies with the partner's risk level (PACI 2013). This risk level therefore determines the scope of the due diligence required and how much scrutiny should be exercised. The risk-based due diligence process is shown in Figure 1.

Key risk indicators for integrity risk assessment are the geographic location, the type of industry, the partner profile, the proximity to public officials, the reasons for the partnership, the type of remuneration and the type/complexity of the contract (PACI 2013, Dow Jones Risk & Compliance 2018, NAVEX Gobal 2018, Roy, Desjardins et al. 2021). The evaluation of these indicators determines the appropriate risk level, and therefore, the level of scrutiny necessary. Having a well-balanced and safe risk assessment process is necessary to render the due diligence program manageable and effective (PACI 2013).

Due Diligence

Corporate governance and due diligence are two important concepts in the real business world. Both have evolved over time, and now encompass not only economic behavior, but also social and environmental aspects. To date, there is hardly a consensus on the definition and the actual scope of the term *due diligence*. *Due* implies payable or immediately enforceable, whereas *diligence* implies attention, care and applications (Spedding 2009). The United States Securities Act of 1933 is widely considered to be at the origin of the concept of due diligence (Taylor 2009). The Act provided a defense for brokers/dealers and protected them from legal liability. The due diligence process consists of an investigation of facts and an evaluation of findings by a designated, responsible person. Entities may be liable for negligence if insufficient or inadequate resources are assigned to the due diligence process. Also, according to a survey, mature programs for third-party risk management apply risk-based due diligence (NAVEX Gobal 2018). Due diligence processes can be specific or general (Table 2), but according to the above survey, mature programs tend to combine different approaches of risk-based due diligence. Laws and procedures regulate and shape due diligence programs.

Laws and procedures

Laws and procedures bring up the importance of due diligence programs for companies. Besides protecting companies from poor decision-making, due diligence programs are also required in many laws, rules and regulations. Failure to implement adequate due diligence to prevent related ethical misconduct can lead to corporate criminal liability. Under the UK Bribery Act, strict penalties for active and passive bribery by individuals as well as companies are included. Any failure by commercial organizations to prevent bribery is an offense of strict and vicarious liability (United Kingdom 2010). This means that the defendant is legally responsible for the consequences of an activity even in the absence of criminal intent, and is responsible for the acts of his subordinate. One major incentive in this context is the reduction of fines and sentences if a liable company has an effective compliance and ethics program and conducts due diligence (United States Sentencing Commission 2018).

Moreover, international funding institutions also require effective due diligence measures to end a sanction or debarment after misconduct (The World Bank 2010). Previous laws and procedures required due diligence on solely economic and financial matters. Now, human rights due diligence is addressed, among others, by the United Nations in their document to achieve the "Protect, Respect and Remedy" framework which widens the initial due diligence scope (United Nations 2011).

Integrity-Related Due Diligence

The laws, procedures and risk indicators mentioned above contain information respecting economic/financial and social/human rights due diligence. Each risk indicator is graded or an overall risk evaluation is done based on the preferences of a manager or of a company. Usually, an investigation of low-risk third parties is carried out by the company department that requested the partnership, and consists of investigations and an internal questionnaire. By contrast, medium- or high-risk third parties usually require an investigation and supervision by the legal or compliance department, and an external questionnaire is sent to the potential partner (PACI 2013).

Economic Due Diligence

In recent years, many organizations have established standards and procedures for economic due diligence. Economic topics related to integrity include corruption and bribery, collusion and antitrust, conflict of interest, and compliance with tax laws and sanctions. The three steps for a third-party economic due diligence are (PACI 2013, NAVEX Gobal 2018):

- Data collection: information about the organization, its ownership and operations, its reputation and capacity to counter integrity-related risks, and the contract terms and suitability of the business partner.
- Verification and validation of data: should involve an independent business function (legal or compliance) for medium or high risk. The responsible person should look for gaps or anomalies and ask for clarification if necessary.
- Evaluation of results: information collected should be reviewed against red flags which indicate a higher risk. Also, a verification should be carried out to see if the information provided reflects a complete picture of the current situation.

Once the due diligence process is completed, an effective approval system is the last barrier to protect organization's integrity. It is a crucial step that determines whether the relation is accepted, modified or denied. It is recommended to have at least two departments involved for medium or high risks (e.g., ethics and compliance department and business units employing third party) (PACI 2013). Finally, post-approval measures, such as a specific contractual language, training of third parties and ongoing monitoring, are suggested to protect companies.

Social Due Diligence

The process for social and economic due diligence are similar since it is about protecting integrity, not profitability or other classical business risks. Social topics related to integrity include human rights and working conditions. For organizations, human rights risks can be defined as potential or actual harm to people in violation of internationally proclaimed laws (Taylor 2009). Interestingly, financial crimes are closely connected to human rights. Indeed, they are a significant obstacle to the improvement of human rights in developing countries (Hess 2018). Corruption often ends up landing on the backs of the poor, and this fact has led to a massive anti-corruption movement. Since many countries experience political and socioeconomic conditions, corporate accountability is seen as a solution to prevent labor and other abuses (Rodríguez, Montiel et al. 2014). The Guiding Principles on Business and Human Rights (number 13) specify that business has the responsibility to (Bonnitcha and McCorquodale 2017):

- Avoid causing or contributing to adverse human rights impacts through their own activities, and must address such impacts when they occur;
- Seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relations, even if they have not contributed to those impacts.

Moreover, the United Nations has established ten principles for a more inclusive economy through responsible business practices (Hemphill and Lillevik 2011). A 2017 survey revealed that contractual terms and codes of conduct are the two most widely used factors to address human rights in different industries (McCorquodale, Smit et al. 2017). Indeed, in an engagement with a third party, contractual provisions act as warranties and leverage in case of misconduct. Other factors are external inspections and training carried out in the partnership.

References for Third-Party Risk-Based Due Diligence

Nowadays, being socially responsible is mandatory for companies. Many organizations have sprung up to provide educational services on conducting business ethically and controlling third parties. These companies produce annual reports that share insights and tips on third-party risk-based due diligence and provide data for the different risk indicators. The contents of these reports originate mostly from data produced by non-governmental organizations, which act as references for risk assessment and due diligence (Table 3).

Applicability to construction and engineering industry

There are many organizations that provide third-party management solutions. Companies purchase the models produced by these organizations, and in some cases, adapt them to their reality. The organizations designing and providing these solutions are mostly accounting and brokerage firms specialized in financial activities (Dow Jones Risk & Compliance 2018, Ernst & Young 2018, NAVEX Gobal 2018). Few studies have addressed the adaptation of these solutions to the needs of construction and engineering companies. Moreover, some organizations provide prescriptive models for specific risks such as corruption and bribery (Ethisphere 2018, TRACE 2018), but do not address all integrity-related risks under a single model. Construction and engineering companies enter into a significant number of partnerships annually, but in the scientific literature, many questions remain unanswered regarding their third-party risk management:

- How can these models be adapted to the construction and engineering reality?
- What content obtained from the different prescriptive models should be modified, and how should this be done?
- How can construction and engineering companies sustainably improve their third-party management processes?

The next section proposes and advances a methodology for a risk-based due diligence program for construction and engineering companies based on a case study from the company.

Proposed methodology for risk-based due diligence through a case study in a major construction and engineering company

The proposed methodology will enable the design of a third-party risk-based due diligence tool for construction and engineering companies. For the purpose of this study, content for the tool will be proposed. The steps, content and format were determined following a review of the literature and of references, as well as from an internal survey previously conducted at the company's Integrity department (Roy, Desjardins et al. 2021). The company previously experienced corruption-related misconduct, which ultimately led to a complete change in its ethics culture. Since then, the company has become an innovation-driven organization in terms of ethics and compliance. It graciously agreed to sponsor the present research to allow the continuous improvement of its business partner compliance tool. To allow a full understanding of the case study, the measures used to implement an ethical culture used by the company are discussed. Then, the six steps are proposed to build a third-party risk management process proposed in the literature, and these are based on the company's current process. The company started from the top by tackling leadership challenges, and used the following seven mechanisms to establish an ethical climate:

1. The addition of integrity as one of their four values (safety, innovation, integrity and collaboration).
2. The company has been awarded the Compliance Leader Verification from Ethisphere Institute an independent center for research, best practices and thought leadership. The company's CEO is also co-chair of the Partnering Against Corruption Initiative (PACI).
3. The annual publication of a code of conduct and ethics.
4. The implementation of an ethics and compliance hotline operated by an independent third-party service provider.
5. A period offering of integrity awards to employees displaying an outstanding ethical conduct.
6. To represent its great diversity, use of images or examples with people from different genders, ages or races (statistically equal) within its training and documents. It also uses fictitious country names in order to avoid reinforcing any stereotypes.
7. According to their tasks, employees must follow many trainings on money laundering, facilitation payments, corruption, bribery, and other ethical issues.

For the organizational structure, 10 out of the 11 members of the board are outsiders of the company. The CEO is the only insider, and does not occupy the chairman's position. Participatory governance is also frequently used. As an example, the Policy Oversight Committee (POC) is a group composed of employees from all corporate functions who propose and revise governance documents, policies, procedures, statements, etc. Also, considering employees' answers to the survey to improve their business partner compliance tool is a form of participatory governance.

Part of establishing an ethical climate is to protect it. Indeed, even if the company were to proceed internally to a complete change of culture, it would still face the same external threats mainly coming from business partners and suppliers. To preserve that ethic culture, the company must manage integrity-related risks. The following are the six proposed steps for the third-party risk management process according to the company:

1. Establish a governance structure to set the tone from the top: The Integrity department is responsible for the code of ethics and business conduct, integrity-related risk management, and internal investigations. It also manages the business partner compliance process and tool.
2. Determine the scope of third parties for your organization: At the company, a business partner is defined as any third party who acts on behalf of or is partnered with the company for the purpose of undertaking a specific task.
3. Design risk models according to your organization's risk aversion: uses a tool for business partner compliance, which it established in 2014, and which covers integrity-related risks such as corruption, bribery, antitrust and compliance. It is an adapted prescriptive model obtained from a third-party management consultant firm.
4. Draft the internal regulatory framework around third party's partnership and risk management of your organization: The company established its own regulatory framework for the business partner compliance process with Standard Operating Procedures (SOP) which cover levels of approval, business partner rehabilitation programs, etc.
5. Execute the process: The company has assessed thousands of business partners since 2014.

6. Improve the process constantly with reports, technology and research: Recent audits have suggested possible improvements for business partner monitoring.

The methodology focuses on the improvement of the risk model. Data and technologies are constantly evolving and the risk model is subject to periodical changes. Figures 2 and 3 show the process and where this research contributes.

Risk model

Risk identification and assessment, as well as due diligence, are covered in this research. For the format adopted for risk assessment and due diligence, as mentioned earlier, it is suggested by renowned ethic and compliance service providers that mature programs tend to combine different approaches. Therefore, a hybrid version of the risk assessment and due diligence format (Table 4) is suggested.

Risk identification

As mentioned above, risk identification is based on the company's code of ethics and business conduct (SNC-Lavalin 2017). Five major risks associated with integrity were highlighted: corruption & bribery, competition & antitrust, conflict of interest, human rights and compliance with regulations. These are the major threats to the company's integrity. Many analyses by the Integrity department also led to the actual structure of the code of ethics and business conduct. This code reflects the company's objectives. For integrity assessment, the main performance indicator would be whether or not employees are complying with the code since having integrity represents walking the talk with the image the company projects (Roy, Desjardins et al. 2021).

Risk Assessment

As discussed in the case of risk assessment, a Key Success Factor (KSF) in the present research was the inclusion of experts' experience and personal judgment, and a second was the inclusion of sustainability issues in risk management. An internal survey was recently conducted at the company among 14 ethics and risk management experts. The respondents were asked to identify the strengths and weaknesses of the current business partner compliance process and to identify threats and positive developments in their fields of expertise regarding integrity management (Roy, Desjardins et al. 2021). They were also asked to score six different risk indicators according to the five integrity-related risks. The study identified the different types of third parties, indicated the indicators that could reveal integrity-related risks, and collected experts' perception on the company's current assessment process. Results revealed that the weighting for the risk assessment questions should draw from the survey's results and that a strategic use of data is recommended (get more details about each risk with each question. As an example, it is possible to assess corruption, tax evasion and human rights risks with location information instead of only corruption). Following this research, the questions suggested for each risk and the survey's score for each indicator are shown in Tables 5 to 9. A score of 0 means that the indicator will not detect the risk and a score of 6 means it is a great indicator in terms of detecting the risk. This survey revealed experts' perception and gaps regarding sustainability issues such as human rights, conflict of interest, etc. Questions to assess the five integrity-related risks are proposed at Table 10. The content and weighting of each question are based on a past research (Roy, Desjardins et al. 2021). A score is associated to each answer. The sum of all the scores enables integrity-risk level and overall partner risk-level assessment (Figures 4 to 6). Risk indicators with a score of 3 or less, and having no literature linking them to the risk are not considered. The past research (Roy, Desjardins et al. 2021) also highlighted the Integrity Check as one of the major strengths of the current process.

The Integrity Check is a process involving different research engines to look for past events, sanctions and others about the potential partner and its employees. It is recommended to keep using the lists regarding Politically Exposed Persons (PEP), adverse media coverage and the watch lists from the development banks. Also, it is suggested to add the list from the business & human rights resource center mentioned in Table 3.

Due diligence

Once the business partner's risk level is assessed, SNC-Lavalin must then conduct due diligence. As mentioned in the literature review, three steps comprise integrity-related due diligence for social and economic concerns:

- Data collection: Tables 11 to 13 show a series of questions about the organization, its ownership and operations, its reputation and capacity to counter integrity-related risks, the contract terms, and the suitability of the business partner. Also, using a hybrid format, a set of questions based on the answers for the risk assessment is proposed in Table 14. The content of these questions is based on the literature review and the results of a past internal survey (Roy, Desjardins et al. 2021).
- Verification and validation of data: As mentioned above, medium and high-risk partners should involve an independent business unit. the company already has a Standard Operating Procedure (SOP) for the approval process. The survey and the literature review show that this process is efficient:
    - Low-risk partners can be approved within the business unit;
    - Medium-risk partners require approval from the business unit's head and a review by an integrity officer;

    - High-risk partners require approval from the sector's president, a review from the integrity officer, and clearance from the chief integrity officer.
- Evaluation of results: As mentioned earlier, if the information collected refers to circumstances suggesting a strong risk, the assessment will be modified. A few exceptions suggesting a strong risk are listed below. These are subject to change and evolution, and should be reviewed periodically.
    - If the partner has a high risk of conflict of interest and will interact directly or indirectly with public officials, his overall risk assessment must be medium or higher;
    - If the business partner is directly recommended by the government in a corrupt country (score 40 or below), his overall risk assessment must be high;
    - If the business partner requested unusual payment terms in a country with strong financial secrecy, his overall risk assessment must be high;
    - If the partner conducts its activities in a country with specific sanctioned industries (e.g., Oil & gas in Venezuela or Russia).

Once the due diligence is completed, the company has to decide whether it accepts or refuses the partnership. No universal rule exists regarding this aspect. Indeed, the company may refuse a low-risk third party or accept a high-risk one. As an example, a low-risk third party for a very small contract could still represent too much risk when compared to the plus value of having that third party (or even that contact). Conversely, a high-risk third party for a vital contract in a risky region could be accepted if the company judges that there is no other choice, in order to proceed with their activities. A workflow summary of the risk assessment and due diligence process can be found in Figure 7.

Risk mitigation

As mentioned earlier, as part of their third-party risk management, companies can accept or decline the partnership. In some cases, such as Joint Ventures or Consortiums, companies could suggest that their potential partners modify their management process to comply with the companies' codes and standards. The partner approval procedure is efficient at the company and reflects what is included in the literature. However, some projects will always be riskier, and mitigation measures are the best way to protect the company and to pursue projects. Mitigation measures include, but are not limited to:

- Specific training for the employees working with a risky partner;
- Designation of a responsible person to operationalize and monitor the partner;
- Follow-up by an independent business function related to integrity or compliance.

Discussion

Integrity management is not an exact science. This research proposes a methodology for engineering and construction companies who want to comply with their code of ethics and business conduct and to be more socially responsible when entering into new partnerships. Being able to protect their reputation while partnering across the globe is a value-creating process for international construction companies (Petrick and Quinn 2000). Corporate sustainability can be defined as the obligation to limit the risk of harming other individuals (Krysiak 2009). Within this context, innovation in integrity risk management fosters an ethical culture, which in turn, enables product and service innovation (Riivari and Lämsä 2019). For the tool specifically, content needs to be reviewed periodically. Databases are constantly evolving and are necessary for an automated process. The references mentioned in Table 3 publish new content periodically and managers should subscribe to their newsletters. Global Slavery, Tax Justice Network and TRACE provide useful information, tips and insights to control the risks associated with integrity. Companies conduct business in a dynamic environment leading to uncertainty, hence the need to be resilient (Slagmulder and Devoldere 2018). The current state of mind at the company must also be fully grasped. The company just got out from a major political scandal regarding its debarment from all federal business in Canada (Snyder 2019). Furthermore, unlike many engineering companies, the company also undertakes the construction phase in many projects, and in some case, even finances them in public-private partnerships. Events such as this scandal and particularities such as being involved in the construction phase or in public-private partnerships alter the company's risk aversion and exposure. Inexact science needs understanding and adjustments. To apply this third-party risk-based due diligence methodology, it is recommended to have completed the six proposed steps for implementing an ethical culture. Furthermore, it is important to have a global portrait of the company and collect the key employees' perception about the different issues the risk-based due diligence is trying to cover. This allows employees to be part of the process and creates a sense of belonging among them, which is a significant aspect of ethical leadership.

From a practical and applied point of view, a few questions remain unanswered. Indeed, one could ask if this process will be more cost- and time-intensive than the current third-party risk assessment process. There could be as many third parties representing lower risks than one representing higher risks, meaning that cost and time intensiveness could go in both directions. Indeed, the current process is more or less the same for every potential partner, meaning that the company spends too little resources on high-risk partners and too much on low-risk partners. The proposed risk-based process could spend the same total amount of resources than the current process, but targets the right amount of resources for low- or high-risk partners. The real benefit to be derived from using this process is in terms of resource efficiency. Also, even if the process is time- and cost-intensive for the organization in the short term, it could prevent nationwide scandals potentially leading to bankruptcy and closure in the long run.

Conclusion

A methodology was proposed according to a past research study and financial prescriptive models. The tool created was designed to improve a company's third-party risk management. The content is adapted from a case study of the company. Companies wishing to use the tool must conduct internal data and information collection before proceeding with the methodology. Construction and engineering organizations have a lot of business partners due to the projects' unicity as mentioned earlier. Third parties represent a main source of disruption in case of misconduct for a company's activities, and must therefore be managed properly. Regular monitoring of data from non-governmental organizations, governments and references in risk management is recommended since integrity-related risks are constantly evolving.

Further research can focus on monitoring the different partners and finding affordable and efficient ways to do so. Having a profile for each partner with its score for the five risks would be a great start. This allows efficient monitoring and a more precise way of investigating business partners. As indicated above, risk accountability is very important. Sending a second questionnaire to the company originator after a year could be a means of ensuring that the relation or the risks did not evolve or increase. Other studies could also focus on environmental issues related to integrity. Indeed, to date, there are very few environmental laws on the books, and the environment is often disregarded. It is often cheaper for companies to pay fines than to comply with the laws that exist.

Governments and legislators need to hold companies accountable with stricter laws. Further risk-based due diligence could then include these environmental risks.

Data Availability Statement

All data, models, and code generated or used during the study appear in the submitted article.

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Tables

Table 1 : Risk assessment overall and precise format comparison

Overall Risk Assessment	**Precise Risk Assessment**
Overall risk evaluation (one risk level)	*Risk evaluation for each risk (one level/risk)*
• Only one approval process • Originator of the relation has limited understanding of the result of the risk assessment • Harder to determine if a business partner needs to go through the process for a second project with the same company (less information)	• One approval process/risk (if levels are different) • Precise information on the risk assessment for the originator • Easier to analyze partner for a second project

Table 2: Due diligence formats

Overall Due Diligence	**Precise Due Diligence**
Set of due diligence questions according to the overall level assessment	*Due diligence questions based on the specific answers*
• More questions covering all the risks • More information, second barrier if the process is poorly done • Same information required for all business partners	• Fewer questions only covering higher risks • Only information about medium- or high-level risks • Precise questions help dig deeper for higher risks

Table 3 : References documents for integrity risk assessment and due diligence from international organizations

Organization	Document title	Description	Key elements
Business & Human Rights Resource Center	Database (Business & Human Rights Resource Centre 2018)	Search engine providing information about business & human rights	Range by companies or by topics relating to human rights
CATO Institute	Human Freedom Index 2018 (Porcnik 2018)	Index and rating for each country with a description	The index measures the personal and economic freedom of individuals to provide a human freedom score

Global Slavery Index	Modern slavery: a hidden, everyday problem (Walk Free Foundation 2018)	Findings and scores by country	Prevalence, vulnerability and government response to modern slavery are considered. Importing risk for the G20 countries are listed.
Human Rights Watch	World Report 2018 (Human Rights Watch 2018)	Events report by country	2018 report focuses on authoritarian populist governments
Tax Justice Network (TJN)	Financial Secrecy Index (Tax Justice Network 2018)	Identifying the most important providers of international financial secrecy	20 different secrecy indicators are used to rank the different countries
TRACE Matrix	TRACE Bribery risk Matrix (TRACE 2018)	Score per country for corruption and bribery risk	Based on four domains: opportunity, deterrence, transparency and oversight
Transparency International	Transparency International Corruption perception Index (TICPI) (Global coalition against corruption 2018)	Annual data on corruption and ratings by country	Based on four elements: Freedom of speech, of the press and of assembly, and civil participation.

Table 4 : Hybrid format for assessment and due diligence

Hybrid Risk Assessment	**Hybrid Due Diligence**
Combination of overall and precise due diligence risk assessment	*Combination of the overall and precise due diligence format*
• Only one approval process • Assessment for each risk to provide more information to the originator • Overall assessment for the approval process • More information for analysis and precise due diligence	• Basic questions about social and economic themes for a second barrier • Precise questions regarding higher risks to allow greater scrutiny • Information for low, medium and high risk • Riskier partner leads to longer process

Table 5: Results and content for antitrust & competition

Risk indicators	Scores	Literature review	Possible questions
Proximity to public officials	2.4	NA	NA
Country	2.6	NA	NA
Partner Profile	3.3	Other similar contracts or agreements with other companies or clients	Does the partner have a similar agreement with another company?
Type of Relation	5.0	The partnership could affect market competition (joint venture or consortium)	What is the purpose of the engagement?
Type of Industry	3.7	Easier to identify if companies act like a cartel for monitoring, but no industry enables it more than others	In which industry does the business partner conduct his activities?
Contract Complexity	3.6	High value or complex contracts reduce the number of potential submissions	Please describe the project on which the business partner will be working (price, uniqueness, complexity, number of links).

Table 6: Results and content for corruption & bribery

Risk factors	Scores	Literature review	Possible questions
Proximity to public officials	4.9	Many interactions with a corrupt government	For this specific engagement, will the business partner be directly or indirectly interacting with government officials?
Country	4.7	Corruption perception index or TRACE bribery risk per country (Table 3)	List all countries where the Business Partner is expected to perform his mandate with or on behalf of SNC-Lavalin.
Partner Profile	3.1	Past misconduct related to corruption & payment terms	How is the Business Partner compensated by SNC-Lavalin (payment or other benefit)? Integrity check
Type of Relation	3.7	Mandatory partnership and intermediaries are often involved in corruption cases	What is the purpose of the engagement?
Type of Industry	2.1	Data indicate that some industries are more likely to ask for bribes	In which industry does the business partner conduct his activities?
Contract Complexity	2.4	Project characteristics are related to corruption vulnerability	Please describe the project on which the business partner will be working (price, uniqueness, complexity, number of links)

Table 7: Results and content for human rights

Risk factors	Scores	Literature review	Possible questions
Proximity to public officials	1.1	NA	NA
Country	4.9	Human freedom index (CATO), world report from Human rights watch and Global Slavery Index (Table 3)	List all countries where the business partner is expected to perform his mandate with or on behalf of SNC-Lavalin
Partner Profile	3.9	Past misconduct related to human rights	Integrity Check with the business & human rights database
Type of Relation	3.1	Partner with suppliers or subcontractors	What is the purpose of the engagement?
Type of Industry	3.9	Self-regulation and lower-skill sectors are riskier	In which industry does the business partner conduct his activities?
Contract Complexity	1.9	NA	NA

Table 8: Results and content for conflict of interest

Risk factors	Scores	Literature review	Possible questions
Proximity to public officials	4.6	Conflict between public duty and private interest	For this specific engagement, will the Business Partner be directly or indirectly interacting with government officials?
Country	2.1	NA	NA
Partner Profile	3.4	Different role in other projects	Does the partner have a similar agreement for another SNC-Lavalin project or company? Integrity check
Type of Relation	5.7	Accountability and relations with other third parties	Is there an actual or apparent conflict of interest in the business partner disclosure? What is the purpose of the engagement?
Type of Industry	2.0	NA	NA
Contract Complexity	2.7	Harder to detect if high number of other partners	Are there a lot of contractual links for this specific engagement?

Table 9: Results and content for compliance with regulations

Risk factors	Scores	Literature review	Possible questions
Proximity to public officials	3.0	NA	NA
Country	4.7	Sanctions per country. Financial secrecy index per country (Table 3)	List all countries where the business partner is expected to perform his mandate with or on behalf of SNC-Lavalin.
Partner Profile	2.9	Payment terms and blocked persons list	Has the business partner requested any unusual payment terms or rates such as cash only, payments to third party or to an account in a country other than either the one where the Business Partner is based or where the services will be rendered? Integrity check
Type of Relation	3.7	Higher risk for partners who provide financial or legal services for SNC-Lavalin	What is the purpose of the engagement?
Type of Industry	3.1	Easier to identify if sanctions for specific industries, but no industry enables it more than others	In which industry does the business partner conduct his activities?
Contract complexity	3.4	Harder to manage and comply if complex	Are there a lot of contractual links for this specific engagement?

Table 10: Questionnaire for risk assessment

Questions	Possible answers	Risks covered and scores: Conflict of interest	Corruption & bribery	Compliance with regulations	Human rights	Antitrust & competition
1. Is there an actual or apparent conflict of interest in the business partner disclosure? If yes, provide details in textbox.	If actual	Mitigate				
	If apparent or potential	6	0	0	0	0
	If none	0	0	0	0	0
2. How is the business partner compensated by SNC-Lavalin (payment or other benefit)? Provide details in textbox.	Major portion is fixed (hourly rate, lump sum price)	0	0	0	0	0
	Major portion depends on successful completion (commission, success fee)	0	4	0	0	0
	No compensation	0	0	0	0	0
3. Has the business partner requested any unusual payment terms or rates such as cash only, payments to third parties or to an account in a country other than either the one where the Business Partner is based or where the services will be rendered? If yes, provide details in textbox.	If yes	0	0	4	0	0
	If no	0	0	0	0	0
4. In which industry will the business partner conduct his activities.	Oil & gas	0	1	0	1	0
	Mining & metallurgy	0	2	0	2	0
	Infrastructure	0	2	0	0	0
	Nuclear	0	0	0	0	0
	Clean power	0	0	0	0	0
5. All countries where the business partner is expected to perform his mandate with or on behalf of SNC-Lavalin must be selected. You should also add the home base country of your business partner. If the mandate is in multiple	If TRACE bribery risk higher than 65	0	0	0	0	0
	If TRACE bribery risk between 40 and 65	0	4	0	0	0
	If TRACE bribery risk below 39	0	6	0	0	0
	If prevalence of slavery is lower than 5 in the Global Slavery Index	0	0	0	0	0

countries, you can select them all	If prevalence of slavery is lower than 7 in the Global Slavery Index	0	0	0	1	0
	If prevalence of slavery is higher than 7 in the Global Slavery Index	0	0	0	2	0
	If secrecy score 65 or below in TJN Financial Secrecy Index	0	0	0	0	0
	If secrecy score above 65 and below 80 in TJN Financial Secrecy Index	0	0	1	0	0
	If secrecy score 80 or more in TJN Financial Secrecy Index	0	0	2	0	0
	If subject to sanctions (as per company's internal documents)	0	0		0	0
6. Please describe the project on which the business partner will be working with the choices below. Provide details in textbox.	If higher than 500 million USD	0	1	0	0	1
	If complex/unique	0	1	0	0	1
	If low number of contractual links	0	0	0	0	0
	If medium number of contractual links	0	1	1	0	0
	If high number of contractual links	1	2	2	0	1
7. What is the purpose of the engagement? Provide details in textbox.	Business development	0	8	0	0	4
	Sales agent	2	8	0	0	0
	Consortium	0	0	0	1	4
	Joint venture	2	0	0	1	4
	Local sponsor	0	8	0	0	0
	Customs or visa	0	1	0	0	0
	Legal or financial	0	1	1	0	0
	Lobbying	2	8	0	0	4
	Intermediary without business development	0	1	0	0	0
	None of the above	0	3	0	0	0
8. For this specific engagement, will the business partner be directly or indirectly interacting with government officials? If yes, provide details in textbox.	If yes	2	6	0	0	0
	If yes, and directly recommended by government	4	10	0	0	0
	If no	0	0	0	0	0

9. Does the partner have a similar agreement for another SNC-Lavalin project or company?	If yes	4	0	0	0	4
	If no	0	0	0	0	0

Table 11: Due diligence based on risk level – Questions for low-, medium- and high-risk partners

Level	Due diligence questions	Risks covered
Questions for low or higher	Please give a detailed description of the actions, tasks and services the business partner will perform. In addition, please explain why the business partner has been selected and why the services cannot be provided by SNC-Lavalin.	General information
	Are the services that the business partner will perform consistently with its normal operations and previous experience?	General information
	Describe in detail the proposed compensation and all the benefits the business partner receives from SNC-Lavalin, directly or indirectly.	Corruption & bribery and compliance with regulations
	Does the business partner promise the success of an SNC-Lavalin bid or that SNC-Lavalin be granted any other benefit (license, permission, favorable business decision, etc.)?	Corruption & bribery and competition & antitrust
	Has the business partner requested secrecy or anonymity for any part of the agreement?	Corruption & bribery, competition & antitrust, conflict of interest and compliance with regulations

Table 12: Due diligence based on risk levels – Questions for medium- and high-risk partners

Level	Due diligence questions	Risks covered
Questions for medium or higher	Please provide the date of the establishment and the country where the business partner is incorporated.	General information and compliance with regulations
	Please provide the local authority registration document for each country where you will be performing your services.	General information and compliance with regulations
	Please provide all the key elements of the compliance program (code of ethics or business conduct, anti-corruption policy, modern slavery policy, etc.).	Corruption & bribery, competition & antitrust, conflict of interest, human rights and compliance with regulations

	Please provide the names and functions of the company's key persons and perform an integrity check against the database.	Corruption & bribery, competition & antitrust, conflict of interest, human rights and compliance with regulations
	Did the company's name change in the last 10 years? If yes, perform an integrity check.	Corruption & bribery, competition & antitrust, conflict of interest, human rights and compliance with regulations
	Will the business partner use any third parties or subcontractors to provide the services? If yes, please provide reasons and documents (supplier code of conduct and others).	Corruption & bribery, competition & antitrust, conflict of interest, human rights and compliance with regulations
	Were any key employees involved in material litigation in the past 10 years or are there any pending litigation, judgments or government investigations against any of the key contacts?	Corruption & bribery, competition & antitrust, conflict of interest, human rights and compliance with regulations

Table 13: Due diligence based on risk level – Questions for high-risk partners

Level	Due diligence questions	Risks covered
Questions for high	Is the business partner part of a group of companies? If yes, please provide the organizational chart.	Corruption & bribery, competition & antitrust, conflict of interest, human rights and compliance with regulations
	Please provide a written bank reference from the bank that confirms that your company is a customer in good standing.	General information and compliance with regulations
	Does the business partner have a previous or existing relation with SNC-Lavalin or one of its entities?	Competition & antitrust and conflict of interest
	Please provide the names of at least 3 business references who have retained your company in a similar purpose/work capacity.	Corruption & bribery, competition & antitrust, conflict of interest, human rights and compliance with regulations

Table 14: Due diligence based on questionnaires' answers

If originator answered	To question	Add this question to the due diligence process
Apparent or potential	1	How will the apparent/potential conflict be managed inside and outside of the partnership agreement?
Yes	3	Please provide the details of the bank to which the payments will be made, their latest audit and financial report, and a written reference from the bank.
A country with a prevalence higher than 5 for modern slavery	5	Provide the business partner's modern slavery policy.
A country with a prevalence higher than 7 for modern slavery	5	Provide details on how business partner will protect human rights throughout the contract.
A country with a secrecy score above 65	5	What are the biggest country threats according to the Financial Secrecy Index?
A country with a secrecy score above 80	5	Provide details on how these threats will be managed throughout the contract.
If high number of links	6	Evaluate the business partner's third-party risk-based due diligence.
Consortium or Joint Venture	7	Provide documents and details about the compliance and ethics program, and about the anti-corruption measures.
Joint Venture	7	Is the contract granted from a Special Purpose Vehicle regrouping one of the Joint Venture's companies? If yes, provide antitrust and conflict of interest management details.
Local sponsor	7	Why does SNC-Lavalin need a local sponsor (law, regulation, standard)?
Business development	7	Why does SNC-Lavalin need an agent for business development?
Lobbying	7	In which of the countries specified in question 5 will the business partner interact? Does the host region or country have laws requiring lobbyists to be part of a professional association or others?
Yes	8	In which of the countries specified in question 5 will the business partner interact?

Yes	9	Describe the other agreements and if they could imply a possible conflict of interest or antitrust issue.