

# How Well Do You Know Your Business Partners?

---



## How Well Do You Know Your Business Partners?

In today's global marketplace, businesses often do not operate in just one region and with just one or two business partners. In the age of highly specialized business services, it is not uncommon for companies to utilize a wide range of business partners in order to provide efficient and cost-effective services to their clients. While these relationships can provide numerous benefits to the parties involved, there are also risks associated when too many parties become aware of sensitive business information. As highlighted by recent scandals, companies need to take the appropriate steps to ensure this sensitive business information does not fall into the wrong hands. These steps include internal procedures as well as properly screening individuals or other entities that will have access to this information.

News headlines referencing scandals pertaining to backdating stock options have faded in the last year or so and recently have been replaced by an evolving insider trading scheme linking a New York hedge fund with a number of prominent global businesses. On October 16, 2009, Raj Rajaratnam, the founder of the US\$7 billion Galleon Group, was charged along with six others in a US\$20 million insider trading scheme. In one instance, prosecutors allege that Rajaratnam, between January 2006 and July 2007, received nonpublic information about Polycom Inc., Hilton Hotels Corp., and Google Inc., and caused Galleon Technology Funds to make improper trades on that information. As a result, the Galleon fund earned more than US\$12.7 million, prosecutors claim.

Rajaratnam has been described by investigators not as a financial whiz, but rather as a master of the Rolodex who used his connections to push profits and advance his alleged scheme. Authorities allege that Rajaratnam used his personal and professional connections with former colleagues, former employees, and former graduate school classmates to obtain nonpublic information about numerous companies in order to generate greater returns for his hedge fund. Rajaratnam is currently facing four counts of conspiracy and eight counts of securities fraud, and while this investigation is still ongoing and additional arrests may come in the weeks and months ahead, prominent U.S. companies may have been adversely impacted by nonpublic information being used inappropriately.

How can companies avoid being adversely impacted by such a scheme? There is no magic answer to keep a company's most valuable information safe; however, there are steps that can be taken to minimize the risk of sensitive information falling into the wrong hands. In addition to internal compliance and ethics training for employees, companies should consider the following questions:

- » Who are the individuals or organizations that have access to our most sensitive information?
- » Do they really require access to that information to perform the services we expect from them?
- » How much experience does a business partner have in handling highly sensitive corporate information?

One frightening lesson for corporations to learn from the ongoing Galleon investigation is that many of the individuals accused of passing along insider information are not low-level junior associates, but rather high-ranking senior executives and company veterans. The ongoing Galleon investigation gives corporate leaders reason to pause and consider the extent to which sensitive information is being distributed to both internal and external parties, and what steps can be taken to prevent that information from being passed to those who could do harm to a company and its reputation. This ongoing investigation also serves as a reminder of

the proper vetting that should be conducted on all individuals and entities that will have access to sensitive information. Due diligence inquiries should be conducted on any outside business partner to ensure no evidence exists of prior improper business dealings. This would include uncovering any prior litigation against a company or individual as well as pertinent regulatory and criminal history inquiries in addition to professional licensing/education verification. Due diligence inquiries should not be limited to only external business partners. The proper screening should also be conducted for any internal employee who has access to this sensitive information.

In 2006 and 2007, there were a rash of cases that made media headlines, where high-ranking executives were accused of backdating stock options. Recently, these headlines have been replaced by various scandals relating to hedge funds, including the ongoing investigation of the Galleon Group. While these scandals are evolving and new details are being reported on a daily basis, the scandals serve as a reminder for companies to take all the necessary steps to ensure any outside firm or individual, as well as internal employees, that has access to sensitive business information is properly screened. In addition to certain internal compliance steps that should be taken, companies should be sure to conduct the proper due diligence inquiries on any outside business partner or new hire that will be privy to sensitive information. Past litigation, a criminal history, regulatory violations, or fabrication of one's resume may be signs of an unethical business partner/potential hire to whom legitimate businesses may not want to grant access to sensitive business information that could be used for illicit activities.



For more information, call, email or visit us online.

**877.230.9082**

**[rsc-contactus@kroll.com](mailto:rsc-contactus@kroll.com)**

**[www.kroll.com](http://www.kroll.com)**