


Anti-corruption  
Private sector

# Confronting corruption\*

The business case for an effective  
anti-corruption programme



\*connectedthinking

PRICEWATERHOUSECOOPERS 

The following report is global in scope. It features analysis and commentary based on an online survey that was supplemented by in-depth interviews with senior executives and specialists in anti-corruption.

## The report

The quantitative findings presented in this report are based on a survey conducted by the Economist Intelligence Unit (EIU) in November 2007. The survey garnered 390 responses from senior executives. In addition, 36 senior executives and specialists were interviewed. The report was written in co-operation with the Economist Intelligence Unit; Kim Andreasson was the project manager and Nigel Holloway the project supervisor.

We would like to thank Keizai Doyukai, the Japan Association of Corporate Executives, for arranging interviews with five Japanese CEOs.

## The interviewees

### Ronald Berenbeim

Principal Researcher Business Ethics  
The Conference Board

### Edward Bickham

Executive Vice President External Affairs  
Anglo American

### Alan Boeckmann

Chairman and Chief Executive Officer  
Fluor Corporation

### Alexander Boreyko

International and Investor Relations Director  
VimpelCom

### Jermyn Brooks

Director of Private-Sector Programmes  
Transparency International

### Ricky Chu Man-Kin

Acting Director of Corruption Prevention  
Independent Commission Against Corruption,  
Hong Kong

### Sir Brian Fall

Senior Diplomatic Adviser  
Rio Tinto

### Susan Côté-Freeman

Programme Manager  
Transparency International

### John Githongo

Senior Associate Member  
St. Antony's College, Oxford University

### Dr Jamshed J Irani

Member of the Board  
Tata Sons Ltd.

### Dr Nereus Joubert

Group General Manager and Company Secretary  
SASOL

### Chandu Kashiram

Risk Manager  
SASOL

### James Klotz

Vice Chairman Bar Issues Commission  
International Bar Association

### Anders Kullerud

Senior Vice President  
Integrity and Social Responsibility  
StatoilHydro

### Professor Dr Johann Graf Lambsdorff

Chair in Economic Theory  
University of Passau, Germany

### Dominique Lamoureux

Vice President Ethics and Corporate Responsibility  
Thales Group

### Karina Litvack

Head of Governance and Sustainable Investment  
F&C Investments

### Jeffrey McGhie

Chief Legal Officer  
VimpelCom

### Jean-Pierre Méan

Group General Counsel and  
Chief Compliance Officer  
SGS Group

### Wayne Murdy

Chairman  
Newmont Mining

### Elin Myrmed-Johansen

Vice President Corporate Responsibility  
Storebrand

### Lou Naumovski

Former Vice President Commercial and  
General Director, Russia  
Visa International

### Ralph Peterson

Chairman and Chief Executive Officer  
CH2M HILL

### Professor Dr Mark Pieth

Chairman of the Working Group on Bribery  
Organisation for Economic Co-operation  
and Development

### Samuel Porteous

Managing Director Asian Disputes and  
Investigations Practice  
Navigant Consulting

### Blake Rhodes

Vice President and Chief Counsel  
Newmont Mining

### Tony Rosato

Senior Vice President Latin America  
SNC-Lavalin International

### Radhika Sarin

International Coordinator  
Publish What You Pay

### Egil Thompson

Executive Vice President Corporate Communications  
Storebrand

### Paul Volcker

Chairman Independent Inquiry Committee into the UN  
Oil-for-Food Programme  
Former Chairman US Federal Reserve

### Albert Wong

Head of Policy and External Relations  
Shell International



January 2008

Welcome to our inaugural *Confronting Corruption* report, a study exploring corruption from the private sector's point of view. This report takes an in-depth look at the compelling business case for companies to proactively manage corruption risk and provides a road map for implementing effective anti-corruption programmes.

As global executives continue to seek growth opportunities in challenging markets, exposure to the reputational, legal, operational and financial impacts of corruption will continue to rise. Recognising this situation, business leaders are searching for risk mitigation strategies that also contribute to their corporate sustainability efforts.

The increased focus on the private sector's role in fighting corruption led us to commission the Economist Intelligence Unit to conduct a global survey and interviews with senior executives and anti-corruption specialists. The mix of respondents and interviewees from both developed and developing nations provides insight into the challenges companies face and the opportunities for both individual and collaborative action. Despite differences in cultures and business practices, survey respondents and interviewees consistently rated protecting their company's reputation as their primary concern.

Highly publicised scandals and expectations of increased government enforcement have established corruption risk as an inescapable reality in the minds of executives. While there is firm commitment to tackling corruption, companies need to do more to protect themselves. The gap between corruption risks and companies' anti-corruption programmes, as well as guidance to remedy it, is explored in the following pages.

We hope this report provides information and ideas to positively influence your strategic activities when operating in challenging business environments.

Samuel A DiPiazza, Jr  
Chief Executive Officer  
PricewaterhouseCoopers International



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# Executive summary

Almost every company, regardless of size, industry or country of operation, is exposed to some degree of corruption risk. Some sectors, such as defence, construction and the extractive industries, identified the danger early and began developing management strategies. Others are just waking up to the risk, often because high-profile enforcement penalties have caught their attention, or because they are seeking opportunities in unfamiliar markets. Companies are also focusing on corruption risk to protect their most vital asset—their reputation—and are developing socially responsible business models expected by investors and other stakeholders. Until recently, however, many did not understand the business case or lacked the practical tools and programmes necessary to implement an effective anti-corruption strategy. The potential of corruption may always be present; however, companies can learn from others and set up a robust and proactive anti-corruption programme to mitigate their risk.

This report examines what companies are currently doing to manage the risk of corruption and what steps they should take to better protect themselves in the future. The research is based on two types of information. First, a global online survey was conducted in November 2007 of 390 senior executives, of whom more than half were C-suite or board-level executives. Second, the survey was supplemented with in-depth interviews with 36 senior executives and specialists in anti-corruption efforts from 14 countries.

An increasing number of companies recognise their vulnerability to corruption:

- Among survey respondents, 63% indicate that they have experienced some form of actual or attempted corruption.
- Enforcement is rising, with 56% saying it has increased in the last five years, and 71% anticipating it will strengthen further in the next five years.

There is a strong business case for having an anti-corruption strategy that goes beyond avoiding potential enforcement penalties:

- Almost 45% of respondents say they have not entered a specific market or pursued a particular opportunity because of corruption risks, 39% say their company has lost a bid because of corrupt officials, and 42% say their competitors pay bribes.
- If corruption was discovered, 55% say the most severe impact would be to corporate reputation. This is greater than the combined total of those who say legal, financial and regulatory impacts would be the most severe.
- More than 70% believe that a better understanding of corruption will help them compete more effectively, make better decisions, improve corporate social responsibility and enter new markets.
- Sixty-five percent of respondents believe a level playing field is crucial to their company's future business activities.

# Among survey respondents, only 22% are very confident that their company's anti-corruption programme identifies and mitigates the risk of corruption.

While companies are generally responding to the risk of corruption, many of their underlying policies and controls do little to identify and mitigate risk due to poor design or implementation.

- Almost 80% of respondents say their company has some form of programme in place to prevent and detect corruption, but only 22% are very confident that it identifies and mitigates the risk of corruption.
- Slightly less than half say their programme is clearly communicated and enforced, while 28% say there are problems with either the communication or the enforcement of their anti-corruption programme.
- Rigorous risk assessment, a crucial step in programme design, is overlooked by more than half of those surveyed, and only 25% perform proactive risk assessments or monitoring.
- Only 40% of respondents believe their current controls are effective at identifying high-risk business partners or suspect disbursements.

Effective anti-corruption programmes not only mitigate risk but can also enhance corporate reputation and establish credibility:

- Having an anti-corruption programme in place and publicising it is seen as valuable or very valuable to a company's brand by 86% of respondents.
- Having a public report by an independent auditor stating that an anti-corruption programme is in place and operating effectively is considered valuable or very valuable to external stakeholders by 76% of respondents.

Overall, the survey indicates that business is more keenly aware than ever of the dangers of corruption. Yet, more work is needed by companies to produce anti-corruption programmes that are well-designed, comprehensive, clearly communicated and enforced. There is certainly a compelling business case for establishing such programmes. Efforts by business, governments and non-governmental organisations in the last decade have given the fight against corruption considerable momentum. But significant challenges lie ahead. Government and business both have vital roles to play: governments to implement and enforce anti-corruption measures, business to implement and vigorously enforce anti-corruption programmes. Each must assume their responsibility to create and sustain an environment that delivers the best resources at the best value to their stakeholders.

## A definition of corruption

There are many ways to define corruption. Robert B. Zoellick, president of the World Bank, says it is "a cancer that steals from the poor, eats away at governance and moral fiber, and destroys trust."<sup>1</sup> For the purposes of this report, corruption is defined as the misuse of entrusted power for private gain and encompasses a variety of issues, including bribery, conflicts of interest, extortion, embezzlement and fraud.





# Why confronting corruption makes sense—the business case

It is the rare CEO who sees the mounting global tally of corporations hit with multi-million-dollar penalties for corruption and does not wonder: Could this happen to my company? In recent years, companies caught breaking anti-corruption laws have individually paid into the hundreds of millions of dollars in fines and several CEOs have stepped down in disgrace.

Steep as they are, these amounts do not begin to reflect the real price paid by a company accused of corruption. “A company just has to get into a serious situation and not address it properly, and their reputation can be irreparably harmed,” says Alan Boeckmann, who as chairman and chief executive officer of Fluor Corporation was instrumental in the creation of the World Economic Forum Partnering Against Corruption Initiative. “It’s hard to measure the benefit you get from a good reputation, and sometimes it’s hard to imagine the danger or the disaster that can befall you if you run afoul of that.”

In addition to the external fallout, as customers and partners distance themselves from a troubled company, there are daunting internal costs. Failing to actively prevent corruption allows employees and third parties to rationalise stealing from the company. Companies with anti-corruption programmes that enable bribe payments are also highly susceptible to theft and financial statement manipulation. Management and staff become distracted and demoralised as they investigate what went wrong and respond to legal, regulatory and enforcement actions. In some recent cases, costs have soared into the billions, significantly affecting earnings. The prime preventative measure a CEO can take is to implement an effective anti-corruption strategy. Through survey results and interviews conducted with senior executives from around the world, this report examines existing anti-corruption programmes, pinpoints weaknesses and

offers solutions. The enormous social cost of corruption on the poorest countries of the world is widely acknowledged, as is its corrosive impact on democracy and good governance for rich and poor alike. Less understood is the price paid by business. The search for new opportunities is increasingly taking companies into emerging markets, including the fast-growing economies of Brazil, Russia, India and China, where they confront unfamiliar business practices. Being able to manage risk in new environments is a necessity as businesses compete globally. Companies must be able to confidently seek new opportunities without exposing themselves to undue risk.

Companies that do not take steps to assess and manage corruption risk stand a greater chance of being caught in the anti-corruption net. With the passing of the Foreign Corrupt Practices Act (FCPA) in 1977, the US took the early initiative in enforcement. Under the act, any company listed on a US exchange or with significant operations in the US is subject to the rules and regulations of the US Department of Justice, regardless of where corruption occurs geographically. More recently, enforcement has become a more global affair, with the US working closely with authorities in other countries. In the last year, at least 20 of the 37 government signatories to the 1997 OECD Convention on Combating Bribery of Foreign Public Officials began one or more investigations into corruption, up from 12 in 2006.

“You need the governments on one side because they provide the teeth,” says Wayne Murdy, chairman of Newmont Mining and a co-founder of the World Economic Forum Partnering Against Corruption Initiative. “But to me it’s very important that the private sector drive the initiatives because they know their business. They know the hot buttons or the risky areas or issues. So they can focus on those.”

“A company just has to get into a serious situation and not address it properly, and their reputation can be irreparably harmed.”

Alan Boeckmann

The most important question a CEO should ask, therefore, is not whether their company will be the next enforcement target but rather what they can do now to reduce the probability of corruption occurring on their watch. Some hesitate to put a programme in place because of concerns raised by their legal department that it will expose the company to more liability, or because they believe that the expense involved does not justify the potential benefits.

Mr Boeckmann of Fluor says the legal argument does not stand up. “When we put the principles together for the Partnering Against Corruption Initiative, we had a number of legal firms involved and got written opinions,” he says. “This does not expose any company to any more liability than they currently own through the laws that are on the books of each country or what may be in their contractual documents. If anything, it is insurance against having to come up against those laws and contracts.”

It takes time and resources to conduct a rigorous risk assessment, tailor a programme to the company’s areas of operation, clearly communicate it to staff and then monitor and enforce its provisions. Still, when asked about the greatest barriers to implementing a successful anti-corruption programme at their company, survey respondents place the cost of a programme well below other barriers, such as country-specific cultural and business practices, competitive pressures, corporate culture and conflicts between competitive and ethical interests. Respondents from the largest companies, with more than US \$10 billion in annual revenues, are even less inclined to view cost as a barrier.

There is also strong evidence contradicting the conventional wisdom that a company’s operations may suffer unless bribes are paid in countries where corruption is perceived to be endemic. Dr Jamshed J Irani, a member of the board of Tata Sons in India, says that if a company establishes a reputation for not paying bribes, the demand for them will dry up and the service will still be rendered. “Very often we find that the person at the other end of the table wants to complete our business as quickly as possible because he knows that we are not going to give anyway,” he says. “There has been a realisation that you don’t have to be corrupt to get your things done and that it is possible to maintain your values even in an environment which might suggest that you can only get ahead through taking short cuts.” Jeffrey McGhie, chief legal officer for VimpelCom, a Russian telecoms firm, says companies have to stop using the excuse that corruption cannot be avoided when doing business in emerging markets. “That attitude is one of the biggest obstacles to real improvement in anti-corruption,” he says.

Looked at logically, bribes do not make good business sense. They may not alter the situation in any way and there is no contract to enforce if the services paid for are not rendered. Having paid once, a company also opens the door to future and perhaps larger demands and becomes susceptible to blackmail. “If you pay someone \$1,000 for a service, do you think the next time they will only ask for \$1,000?” says Albert Wong, head of policy and external relations at Shell International. He tells his staff to avoid this slippery slope by refusing the first demand.

Corruption itself is a moving target. Suitcases of cash have been replaced by requests for donations or other payments that sound innocent but turn out to be corruption in disguise. “You should never underestimate the resourcefulness of corrupt people,” says Ronald Berenbeim, principal researcher, business ethics, at The Conference Board. “This is a mutating virus that is very hard to keep up with.” Without a programme in place, a company may not even be aware that they are vulnerable until it is too late.

A great deal of work is being done to help companies fight corruption and make informed decisions. Help and advice are available from business groups such as the World Economic Forum and the International Chamber of Commerce, from joint initiatives with groups such as Transparency International and from firms that specialise in anti-corruption strategies.

While companies cannot control how governments and competitors behave, there are tools available to help level the playing field. One example is the so-called “integrity pact,” where all parties sign an enforceable agreement not to engage in corruption. Our survey highlights the importance of getting everyone to play by the same rules. Almost 45% of respondents say they currently avoid certain markets or opportunities because of corruption risks and almost 40% say they have lost bids because of corrupt officials.

Companies must be able to confidently seek new opportunities without exposing themselves to undue risk.

## Ralph Peterson Chairman and Chief Executive Officer CH2M Hill

Q. How do you describe the business case for fighting corruption to your fellow CEOs?

A. There are four compelling elements that circumscribe the business case: (1) the ethics penalty; (2) the reputation, credibility and social license dimension; (3) the sheer economic loss, which is pretty staggering; and then (4) the attractiveness of the profession to new recruits.

There is an ethical penalty for honorable companies that occurs when the playing field is not level and corruption is present. That's a pretty significant issue because there are lots of interesting projects that we steer clear of because they're in locations or circumstances where we're not convinced that we can walk the talk.

A very close second is the issue of reputation and its effect on credibility and hence on social license to get things done. That is more than just an embarrassment issue. It's also a bottom-line issue because the ability of a company to actually get things done is dependent on a social license. That social license is granted by civil society and governments based on credibility. Projects and activities are stalled or don't get implemented because of mistrust.

The occurrence of an incident to a particular company has an immediate and profound impact on that company's bottom line because many clients, which in our case are governments or multinational corporations, will simply not want to do business with you because you may attract controversy vicariously to their potentially honorable activities.

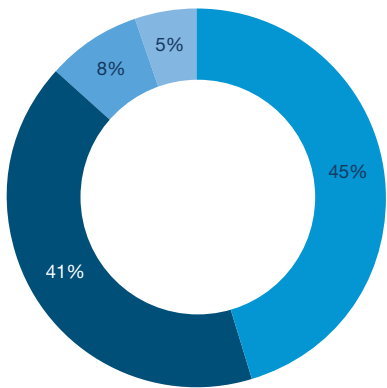
Related to that point, there is in fact a substantial economic loss—by some estimates for our sector as much as US \$400 billion—associated with the theft of resources that then cannot be deployed in education or healthcare or life-improving civil infrastructure. So there's an economic loss.

Then perhaps fourth on the list is the issue of what we sometimes refer to as the race for talent. Engineering talent is in short supply. We need to make engineering and construction an attractive career option for young people entering the workforce. When, as is often the case, the engineering and construction industry finishes dead last, dead last behind the defense industry and behind oil and gas as an area of perceived corruption, that can't make young people want to flock into this arena and it's going to make them want to go somewhere else.

Above and beyond the solid business case for having an anti-corruption programme, there are other significant benefits to having a strategy in place. In our survey, 86% of respondents say a programme is either very or somewhat valuable to the company's brand, if the public knows about it. Looking just at respondents from the largest companies, almost 96% agree with this point of view. The existence of an effective anti-corruption programme also appears to be viewed favourably by enforcement authorities.

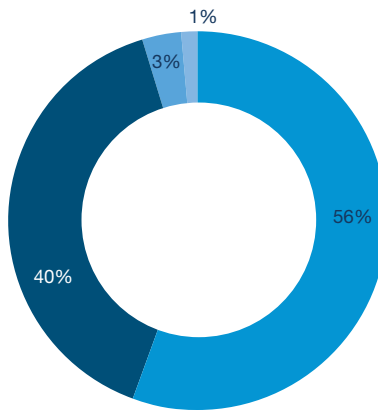
**What is the value to your company's reputation and/or brand in having a publicly disclosed anti-corruption programme and controls?**

All companies



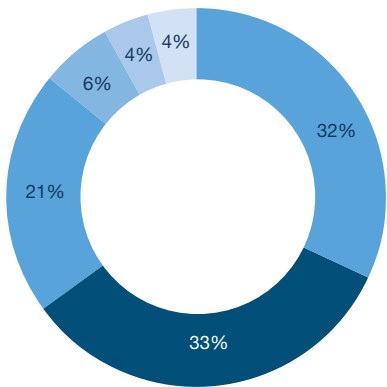
- Very valuable
- Somewhat valuable
- Not at all valuable
- Don't know

Companies with revenue over US \$10 billion



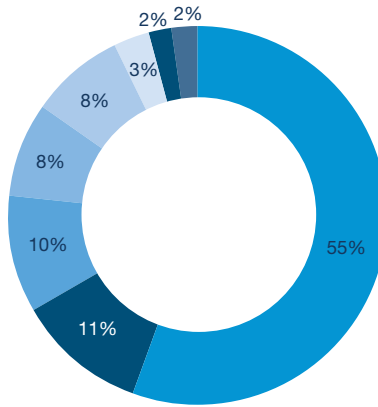
- Very valuable
- Somewhat valuable
- Not at all valuable
- Don't know

**Creating a level playing field is crucial to my company's future business activities.**



- Accurate
- Somewhat accurate
- Not at all accurate
- Don't know

**If corruption was discovered at your company, in which of the following areas would the impact be most severe?**



- Corporate reputation
- Legal/enforcement action
- Regulatory action
- Loss of human capital (recruiting, morale, turnover)
- Financial loss
- Operational interruption
- Don't know
- Enforcement costs

It is not enough for a company to have a “paper programme” without any real substance to it, says Alice S Fisher, assistant US attorney general. By setting up an effective, proactive programme with real substance, companies may also receive more favourable treatment from enforcement authorities should corruption be discovered. “It may not mean that you or your client will get a complete pass, but you will get a real, tangible benefit.”<sup>2</sup>

Investors and other stakeholders are increasingly watching how companies handle corporate social responsibility (CSR), of which anti-corruption efforts are an important element. Stock exchanges have responded to these changing conditions. The creation in 2001 of the FTSE4GOOD Index Series, which are benchmark and tradable indices for socially responsible investors, is one notable example. In 2006 the series included countering bribery as a criterion for remaining in the index, signalling that countering corruption had become an important part of the corporate social responsibility agenda. The Dow Jones Sustainability Indices, established in 1999, now include corruption and bribery in their assessment criteria.

Trillions of dollars are now specifically invested in the socially responsible marketplace. Accordingly, credible and robust public reporting of anti-corruption initiatives should be important considerations for companies.

“There has been a realisation that you don’t have to be corrupt to get your things done and that it is possible to maintain your values even in an environment which might suggest that you can only get ahead through taking short cuts.”

Dr Jamshed J Irani



# Anti-corruption programmes — from headquarters to the front lines

The survey indicates broad understanding that a successful anti-corruption programme must begin with a clear commitment from senior management. “If you don’t get the CEO to signal support for the anti-corruption programme, you might as well not do it,” agrees Dr Nereus Joubert, group general manager and company secretary at the South African chemical and liquid fuels company SASOL.

Survey respondents agree and rank a strong signal from senior management as the most effective way to minimise corruption at their companies. Yet it is only a starting point that must be accompanied by a substantive programme which targets the people and processes most at risk and is tailored to fit each company’s unique profile and areas of operation. The further an operating unit is away from head office, the more the message seems to fade.

“If you don’t get the CEO to signal support for the anti-corruption programme, you might as well not do it.”

Dr Nereus Joubert



Almost 80% of respondents indicate that their company has some type of anti-corruption programme. Yet is it troubling that only 22% say they are very confident it identifies and mitigates the risk of corruption. A further 52% say they are somewhat confident. However, when these two groups are examined closely, the latter group's level of confidence does not appear justified. While almost half of respondents in the "very confident" group believe their company considers the risk of corruption when making significant business decisions, only 18% of the "somewhat confident" respondents believe their companies do so. Among the very confident, 45% describe the risk assessment process at their company as rigorous, compared with only 11% in the somewhat confident group. When it comes to informing employees about a programme, 83% of very confident respondents say their corporate programme is clearly communicated and enforced, compared with 54% in the somewhat confident group. The data suggest that while some companies have made progress, the majority still have good reasons for doubting the effectiveness of their programmes.

**How confident are you that your controls/ programmes identify and mitigate corruption risk?**

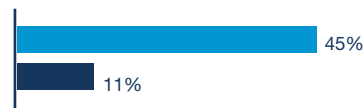
**Comparing the 22% very confident and 52% somewhat confident respondents identifies significant gaps**

- Very confident
- Somewhat confident

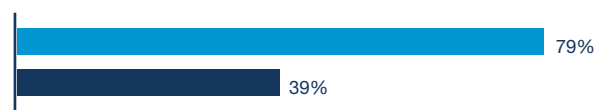
My company has a specific global programme that includes policies and controls designed to prevent and detect corruption, and it is clearly communicated and enforced



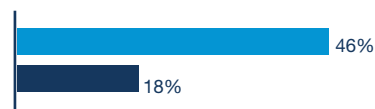
It is accurate that the corruption risk assessment process at my company is rigorous



Our current controls are effective at identifying high-risk business partners and suspect disbursements



It is accurate that the risk of corruption is always considered when making significant business decisions



“What each company needs to do is to look through its business, both domestic and international, particularly which countries it’s in, the type of businesses it’s conducting, and based on the specifics of the business to do a risk analysis.”

Jermyn Brooks

## Risk assessment

In the survey, 57% of respondents say their company always considers the risk of corruption when making significant business decisions. Dig deeper into the findings and problems emerge. Among respondents, only 47% describe the corruption risk assessment at their company as rigorous, which means that 53% of companies limit the effectiveness of their programmes. Thoroughly customised proper risk assessment allows companies to focus resources on key risks instead of chasing the hot topic of the day. Only 25% of respondents say their company performs proactive risk assessments or monitoring. Little wonder then that only 40% of respondents believe their controls are effective at identifying high-risk business partners or suspicious disbursements.

Implementing a programme is much more complex than a simple one-liner that says “do not bribe,” says Jermyn Brooks, director of private sector programmes at Transparency International. “What each company needs to do is to look through its business, both domestic and international, particularly which countries it’s in, the type of businesses it’s conducting, and based on the specifics of the business to do a risk analysis” says Mr Brooks. “And then to say our main risks for being involved in bribery and corruption lie in these, let’s say, ten points. It might be types of transactions; it might be in particular countries. And then to design your anti-corruption policy specifically to cover those neuralgic points.”

At Newmont Mining, Mr Murdy asked two senior executives with experience in Central Asia and Latin America to help flesh out the guiding principles for the company’s anti-corruption programme. “They had real experience on the ground and knew what the issues were,” he says. “Then the

law department really ran with that.” The involvement of the senior executives at an early stage in the process helped win broader acceptance later on because employees did not see the new programme as something that was being imposed by the legal department.

A comprehensive corruption risk analysis may persuade a company to avoid certain markets or partners altogether because the possibilities of becoming involved in corruption are judged too high. But it can also equip a company to stride with confidence into a challenging environment, where cultural and business practices are unfamiliar, knowing that it has identified key risks and can design processes to manage corruption risk.

## Programme design

Only after assessing potential risk can a company start to design its anti-corruption strategy. Each programme must be tailored to fit different processes, products and markets. Ron Berenbeim of The Conference Board compares the design process to a Christmas tree. The trunk and branches, which represent a commitment not to engage in corruption, are the same for every strategy. The ornaments, which represent the focus on particular countries, products or processes, differ from one company to the next. “One size does not fit all for all companies or even all companies within certain industries,” says Mr Berenbeim. “It’s company specific.”

In the survey, respondents indicated that payments made through agents, intermediaries or other third parties are the most prevalent forms of corruption. Paying a lobbyist to arrange a meeting with a politician, hiring an agent to liaise with local authorities on an infrastructure project, or engaging a contractor to handle local procurement are all arrangements that

## Five steps to a better anti-corruption programme

1. **Risk analysis:** This basic step in the design of an effective anti-corruption policy must cover all aspects of a company's business, including countries of operation and the type of business being conducted. Once the key corruption risks are identified, the programme is designed to cover those points.
2. **Implementation:** Done properly, this means a careful and continuous communication programme, training and adjustment of internal processes to ensure they do not run counter to the anti-corruption policy.
3. **Sanctions:** Everyone in the company needs to know that a sanctions system is in place and that if they contravene the policy they endanger their job, or at least their prospects of promotion and remuneration.
4. **Help lines:** Companies should have an open or an anonymous help line where employees can ask for advice. Individual employees, no matter what their level, should not face difficult ethical decisions alone.
5. **Monitoring:** Treat anti-corruption as you would a health and safety programme, analysing its strengths and weaknesses on an ongoing basis and making adjustments to make it more effective.

Jermyn Brooks

might lead to bribery because they can be used to disguise corruption and distance the person paying the bribe from the ultimate recipient. Regardless of who actually delivers the payment, the company bears the risk of enforcement and damage to its reputation.

Procurement stands out as the most vulnerable business operation. Second are bids or sales. Third is the establishment of a presence in an unfamiliar market. In interviews conducted for this report, sales was singled out by a number of executives as an area in need of particular attention, both in the design and the implementation of an effective strategy. It is important in programme design that compensation incentives for the sales force are aligned closely with the anti-corruption strategy. If a sales person loses business because they refuse to pay bribes and then are punished for not reaching a particular target, the anti-corruption strategy is undermined. "You have to look at all internal systems to make sure that they're not countering your anti-corruption policy," says Mr Brooks of Transparency International. "And that's a big job." A thorough examination of internal systems means bringing all the relevant departments—not just the general counsel and finance function—to the table when the anti-corruption plan is designed.

### Communication and training

The world's best-designed anti-corruption programme is not enough by itself. Employees must also know about it and understand that there will be sanctions if they transgress. The survey highlights the continuing challenges in this area. Among all respondents, only 49% say their company's programme is clearly communicated and enforced, while 28% see problems with either communication or enforcement. Notably, 17% say their company does not have a programme that includes policies and controls designed to prevent and detect corruption. The larger companies appear to be doing a better job in this respect.

# Navigating grey areas

While handing a large amount of cash to a government official in order to secure business is commonly understood to be a bribe, there are other payments and business arrangements that are more difficult to categorise, especially in countries where the business culture may be different. Relationship-based business practices, for example, are one of the “grey areas” that anti-corruption advocates have to focus on in future, says Mr Peterson of CH2M HILL. “It’s not necessarily illegal. It just has some of the attributes that we fear.” Such grey areas need to be identified and addressed with clear guidelines for employees.

By flagging facilitation payments, gifts and the use of middlemen as potential grey areas and setting clear guidelines backed by advice, companies can help their employees make the right decisions.

## Facilitation payments

Companies face a dilemma regarding the use of facilitation payments, characterised in US law as payments for expediting routine government actions, such as obtaining permits and licences; processing visas and work orders; or providing phone, power or water services. The payments are not to obtain or retain business nor gain any other improper advantage. Such payments are explicitly allowed under US law and the OECD anti-bribery convention, but banned by many countries and companies. There are divergent views about whether companies should tolerate them. Some firms prohibit them entirely while others ensure transparency by requiring facilitation payments to be properly authorised and recorded. Mr Murdy of Newmont Mining says it is highly frustrating when officials in certain countries demand facilitation payments for things like import clearance at ports because the government is not paying them enough to live on. “There’s a whole inefficiency that occurs in that kind of system,” he says. For a company, it may be tempting to pay the money if it means the work will be done more quickly. “I’m old fashioned,” says Paul Volcker, chairman of the independent inquiry committee into the UN Oil-for-Food Programme, which found that more than 2,200 companies involved in the programme paid kickbacks to officials in Iraq.<sup>3</sup> “If you’re going to go after corruption, I don’t think you can say it’s okay in one place and not okay in another.” Professor Dr Johann Graf Lambsdorff, the German corruption specialist who invented the Corruption Perceptions Index used by Transparency International, says his research suggests that the most effective way of dealing

with the problem is to reject all requests for bribes. “Bureaucrats understand very quickly if they are told there is no slush fund.” Given the sometimes emotional arguments on this topic, The Conference Board identified facilitation payments as perhaps “the most vexatious anti-corruption policy issue.”<sup>4</sup>

## Agents and middlemen

Companies that venture into new markets, where the culture and language are unfamiliar, often use agents, consultants and other forms of middlemen to understand the operating environment. Yet, as the survey and several recent court cases show, such middlemen are particularly prone to corruption. Drawing on his experience with the inquiry into the UN Oil-for-Food Programme, Mr Volcker points out that when the Iraqis became aggressive in demanding kickbacks, a number of prominent companies decided to withdraw from the programme. Those companies that remained used what Mr Volcker refers to as “shady middlemen” or agents. “I think the spotlight has been put on the casual use of agents,” he says. Given the heightened risks associated with agents and middlemen, companies should develop specific and rigorous guidelines for performing due diligence and approving the use of agents.

## Gifts

When respondents to the survey were asked to rank forms of corruption in order of prevalence, they placed payments made through agents, intermediaries or other third parties at the top of the list, followed by inappropriate gifts, payment in company products or services, sponsorships or donations to a particular cause, political donations and bribes made via a corporate or employee credit card. Even for companies with a clear policy against corruption, gifts can be a tricky area, says Mr Wong of Shell International. “How much of a gift can I give you? Can I send you a Christmas card? Can I send you a Ferrari car model? There are some very grey areas.” Transparency International suggests getting advice on what is considered customary and what is excessive in a new market. Help lines can help employees in far-flung locations obtain quick responses to questions regarding what is acceptable in a particular country. This is not to say there should be no restrictions. “Cultural relativism ends where the Swiss bank account enters the scene,” says Transparency International in the guidelines published on its website.

“We have set examples just to drive home the message that anyone who’s found indulging in such practices is immediately, shall we say, acted upon and removed from the organisation.”

Dr Jamshed J Irani

Among corporations with annual revenues of US \$10 billion or more, 76% of respondents indicate their company’s programme is clearly communicated and enforced, whereas among corporations with revenues of less than \$10 billion, only 41% agree.

Too many companies fail when it comes to implementation, says Mr Brooks of Transparency International: “They don’t do too badly on the policy. And they do understand that it’s part of risk management. But then they sit back and say: ‘Well, we’ll just put it on notice boards, we’ll put it on our website, and then everyone inside and outside the company knows about it.’” Experience shows more effort is needed. StatoilHydro in Norway, for example, is preparing what it calls an anti-corruption culture development programme that will be rolled out this year to reach all of its 31,000 employees and will include a mandatory e-learning programme, says Anders Kullerud, senior vice president of integrity and social responsibility.

There was some disagreement among those interviewed for this report as to whether programme implementation should be primarily a top-down affair, or whether employees should be actively involved at all stages of the process. A company must have both, says Professor Dr Lambsdorff, the global corruption specialist. “You must have a clear commitment from top down, clear enforcement from the top down, but also encourage the many grassroots, bottom-up endeavors within the company.”

There was no disagreement, however, on the importance of training to ensure that the values incorporated in the anti-corruption programme are translated into real action on the ground. Training was among the top five actions respondents selected as the most effective ways to minimise the likelihood of corruption at a company. (The others are commitment

from senior management, clear communication of guidelines, hiring people with high ethical standards and sanctions.)

Since sales and bids are regarded as areas where companies are particularly vulnerable to corruption, it would make sense to provide additional training to employees in these departments. At Thales, the French security and defence group, sales and marketing functions were targeted first when a new training programme began in 2000, says Dominique Lamoureux, vice president of ethics and corporate responsibility. Storebrand, a financial services company in Norway, gives more training to financial advisors who sell company products than to other employees, says Elin Myrmel-Johansen, vice president of corporate responsibility.

### Sanctions

Even the strictest guidelines will eventually be ignored unless there is a penalty for not following them. The survey indicates that respondents place a high degree of importance on consistent sanctions as a means of minimising corruption. The penalty may not necessarily be immediate and tailored, but it must be consistently enforced. “You have to support the system with a sanctions policy, which again, needs to be fair and open and as transparent as possible, because you obviously need to protect people’s privacy,” says Mr Brooks of Transparency International. At Tata Sons in India, the anti-corruption strategy is ingrained even in the code of conduct, says Dr Irani: “We have set examples just to drive home the message that anyone who’s found indulging in such practices is immediately, shall we say, acted upon and removed from the organisation.” Without exception, interviewees for this report stressed the need for consistent application of sanctions.

# Monitoring in action

## SASOL

SASOL in South Africa decided to appoint ethics champions in all of its operating units. “It’s a big group and one has to influence behaviour around the globe,” says Dr Nereus Joubert, group general manager and company secretary at the chemical and liquid fuels company. These employees, specifically designated to increase the profile of the ethics programme, are also brought together on a quarterly basis to discuss common concerns. SASOL followed the initiative by surveying 9,000 of its 30,000 employees and discovered that awareness of its ethics champions was much lower than expected. The informal designation of the employees as ethics champions will now be made more formal, says Dr Joubert. SASOL also has a forensics department that investigates suspicious activity. The amount that the forensics department has recovered justifies the cost of the programme, says Dr Joubert, adding it is hard to measure the cost of the corrupt activities that they prevented. He also points out that the ethics programme is part of corporate governance and that studies have shown that, over time, the shares of well-governed companies perform better than those of their less well-governed peers.

## Rio Tinto

At Rio Tinto, the global mining company based in the United Kingdom, managers of business operations are required to fill out a questionnaire every year on how well they are fulfilling their obligations, says Sir Brian Fall, senior diplomatic adviser. Those obligations cover hard and soft management issues, he says, ranging from financial targets, environmental targets and mine safety to corporate social responsibility, human resources and anti-corruption. “They all appear in the same questionnaire. We don’t have one questionnaire for business questions and an add-on for other areas.”

The company does not depend on these reports alone to detect or prevent harmful behaviour but they are part of an overall strategy. Continuous monitoring, including a confidential whistleblowing line where calls are handled by independent interviewers and the results forwarded to managers each month, ensures that serious incidents come to the attention of senior management long before the annual questionnaires are submitted.

## Monitoring

No company would put a health and safety programme in place and then just assume that it works. Treating an anti-corruption programme this way greatly increases the possibility that there will be problems down the road. In ensuring that the processes actually work, companies may also uncover suspect transactions and move to correct them long before the problems spread. In the survey, respondents place internal controls at the top of the list when asked how corruption, either attempted or actual, was discovered at their company. This was followed by internal audit, employees reporting through the normal chain of command, a tip from a whistleblower and by accident.

Internal auditors are part of the monitoring process, although they are more likely to catch corruption after it occurs. The Transparency International guidelines suggest that internal auditors conduct regular tests to ensure the programme is working and is reaching all the right people in the company. Problems should be reported to management and the information used to revise and improve the programme.<sup>5</sup>

To enhance periodic monitoring and establish credibility for their anti-corruption programmes, leading companies, non-governmental organisations and specialists are working together to develop means of independent verification. These efforts appear justified. A public report by an independent auditor

stating that an anti-corruption programme is operating effectively is judged to be very or somewhat valuable by 76% of respondents in the general survey, and by nearly 82% of respondents from the largest companies.

The ever-changing nature of corruption makes continuous monitoring essential. “We are getting into the era where people are asking for donations to foundations as sort of table stakes for jobs, or they want companies to pay for the education of members of their civil service or the medical care needed by their families or so on and so forth,” says Mr Berenbeim of The Conference Board. “You are not going to entirely put an end to corruption by having some legislation that makes it unlawful to bribe a public official and vigorously enforcing it because the form and methods will change.” Constant monitoring helps companies identify new forms of corruption and adapt their programmes accordingly.

## Hotlines and help lines

The survey indicates that a hotline for whistleblowers is considered an important tool in detecting cases of corruption. Yet, there is debate about whether the best use of these lines is to make them help lines (which employees can use to get advice on an ethical question in advance) rather than hotlines (used to report unethical or corrupt behaviour after the fact). They need not be mutually exclusive. Increasingly, companies are using both.





## The emerging markets of Brazil, Russia, India and China (BRIC)

No discussion of the private-sector fight against corruption is complete without a look at the challenges faced by companies doing business in the emerging economic powerhouses of Brazil, Russia, India and China, collectively known as the BRIC countries.<sup>6</sup>

Respondents from companies in Brazil, Russia, India and China tend to view corruption in much the same way as the overall group. Yet there are some differences:

- Almost 50% of respondents in the BRIC countries consider corruption a cost of doing business that cannot be eradicated, compared with only 35% in the general group. Looking at China alone, 72% of respondents hold this view.
- Enforcement is considered less of a risk by the BRIC group, with 45% saying it had strengthened in the last five years, compared with 56% in the general group. Respondents from Brazil stood out from the rest of the BRIC group, with 72% saying enforcement had already strengthened and an even greater number believing it will strengthen further in the next five years.
- The number of respondents saying their company's programme includes proactive risk assessments and monitoring of corruption risk was about the same in the BRIC group as in the general survey, about 25%. Only 29% of BRIC respondents say their controls are effective in identifying high-risk partners and suspect disbursements, compared with 40% in the overall survey.
- BRIC respondents also differ from the general group in terms of what forms of corruption are most prevalent. Inappropriate gifts head the BRIC list, compared with payments made through agents and intermediaries for the general group. This was particularly true in China.

Despite the skepticism and perceived levels of heightened risk in these markets, a number of companies have shown that proactively addressing corruption risks can help balance risk and return. While the business opportunities are compelling, companies must tailor their programme's controls and oversight for each market.

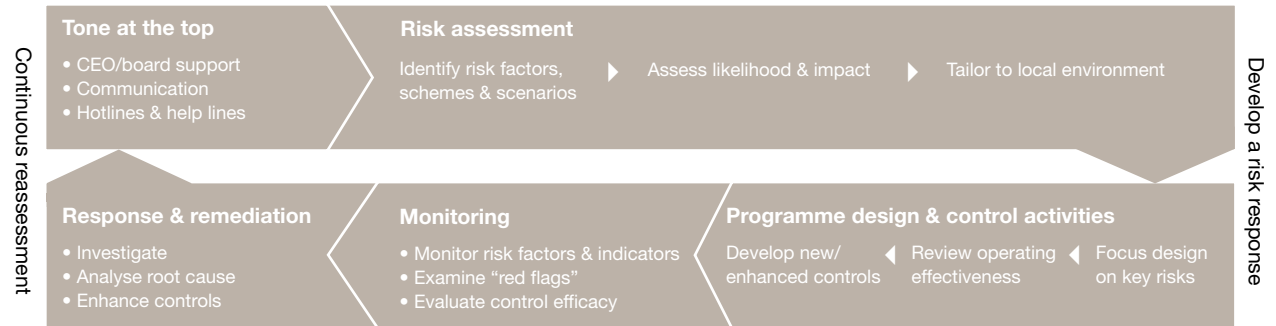
“You shouldn't leave individual employees, no matter what level they operate at, alone with a very difficult ethical decision.”

Jermyn Brooks

Mr Brooks of Transparency International says help lines help employees avoid the type of behaviour reported on hotlines. “You shouldn't leave individual employees, no matter what level they operate at, alone with a very difficult ethical decision,” he says.

Staff need support, says Mr Murdy of Newmont Mining. Earlier in his career, Mr Murdy worked as a public accountant with employees of a company embroiled in a corruption scandal. “When we interviewed the employees that were involved, you could just see the distaste that they had,” he says. “It was very visible and obvious—their attitude, though, was: We didn't like it, but that was the way business was done. In my experience you put employees in a very, very difficult position if they think that they're supposed to take some action for the 'betterment of business' that is not ethical or not legal.” At CH2M HILL, the hotline has proved invaluable, says Mr Peterson: “Most of the activities that we have encountered that needed corrective attention honestly surfaced through this hotline. It is an ethical company's best friend because employees are, by and large, good people and they see things going on.”

# Essential elements of an anti-corruption programme



## Tone at the top

- CEO/board support
- Communication
- Hotlines & help lines

## Tone at the top

- Leadership and support of CEO, board and senior executives
- Consistent communication, support and enforcement of programme is essential to establish credibility
- Incorporate anti-corruption programme with the organisational structure and formal decision making processes
- Establish whistleblower hotlines, employee help lines and topical guidance to support employees in challenging situations
- Regular reporting to CEO and board

## Risk assessment

- Identify risk factors
- Assess likelihood & impact
- Tailor to local environment

## Risk assessment

- Utilise cross-functional teams (business unit, finance, internal audit, compliance, legal) to establish credibility and consistency
- Identify risk factors, schemes and scenarios at a business process level
- Assess likelihood and impact
- Tailor assessment to local incentives, pressures, opportunities and attitudes
- Evaluate and prioritise key risks relevant to the organisation

#### Programme design & control activities

- Focus design on key risks
- Review operating effectiveness
- Develop new/enhanced controls

#### Programme design and control activities

- Focus design and implementation on key risks identified in the risk assessment
- Typical policies and controls to consider:
  - Facilitation payments
  - Gifts, hospitality and entertainment
  - Use of agents and other intermediaries
  - Political and charitable contributions
  - Acquisition due diligence
  - Joint ventures or similar relationships
  - Record keeping requirements
  - Investigation and sanction procedures
- Ensure controls contemplate risks of override, circumvention and collusion
- Tailor controls to local environment and business models

#### Monitoring

- Monitor risk factors & indicators
- Examine “red flags”
- Evaluate control efficacy

#### Monitoring

- Design monitoring and auditing procedures around risk factors and indicators
- Periodically evaluate program effectiveness by performing internal audits
- Survey employees’ understanding of programme
- Constantly incorporate monitoring results into programme design

#### Response & remediation

- Investigate
- Analyse root cause
- Enhance controls

#### Response and remediation

- Establish formal process for initiating, tracking, resolving and documenting allegations
- Identify and remediate control weaknesses which led to corrupt activities
- Consistently enforce sanctions



# Looking to others for support

Companies are beginning to understand that fighting corruption requires working with other corporations, as well as governments and non-governmental organisations. The survey indicates that 53% of respondents believe anti-corruption initiatives led by the private sector are very or somewhat effective and 74% think they will be very or somewhat effective five years from now.

Two of the main global collaborations driven by the private sector are (a) The Anti-Corruption Commission at the International Chamber of Commerce, which encourages self-regulation by enterprises in confronting issues of extortion and bribery and provides business input into international initiatives to fight corruption,<sup>7</sup> and (b) the World Economic Forum Partnering Against Corruption Initiative, which began with executives in the construction and extractive industries and has since expanded to include other sectors.

Mr Boeckmann, a driving force behind the creation of the World Economic Forum Partnering Against Corruption Initiative, says that initially some companies were reluctant to join because they feared it would be a business disadvantage. “With the critical mass that we’ve created here, it gives a lot of comfort to companies to come on board. The forums that we hold, where we share best practices, have really been well received because it allows even smaller companies that may not have the resources or the wherewithal or knowledge to quickly get up to speed and implement the systems that will help them combat corruption in their business.”

One example of the many programmes led by the private sector is the Extractive Industries Transparency Initiative. Edward Bickham, executive vice president of external affairs at Anglo American, says the major mining companies work through this initiative to avoid

feeding the “resource curse,” which involves poor management by governments of resource revenues and predatory behaviour by corrupt elites. In the high-risk industries of defence, construction and the extractive sectors, where many corporate leaders are already active in these collaborations, 61% think they are very or somewhat effective already, compared with 53% in the general survey.

A challenge for these private-sector initiatives in the future is to involve more small- and medium-sized enterprises. While smaller companies represent the vast majority of global business activities and are the most vulnerable to corruption,<sup>8</sup> they do not have the same resources to put internal safeguards in place and lack the ability of larger companies to stand up to government officials demanding bribes. They are also vulnerable to private-to-private corruption, where the demand for a bribe may come from an employee of a larger firm.

It is in the interest of large companies to have small- and medium-sized firms involved. “Big guys don’t want to compete against corrupt little guys,” says Mr Wong of Shell International. Large companies are also under increasing pressure from regulators to ensure the integrity of companies in their supply chain. There are at least two efforts underway to correct this imbalance. Transparency International is working on guidelines developed specifically for smaller firms and the World Economic Forum Partnering Against Corruption Initiative is adapting its policy for smaller companies.

## **Collaboration by governments and non-governmental organisations**

Recent activity by governments has made the enforcement of anti-corruption laws an increasingly important area for business. Among survey respondents, 56% agree that

# Professor Dr Mark Pieth

## Chairman of the Organisation for Economic Co-operation and Development Working Group on Bribery

Q. What challenges and opportunities do you expect the OECD convention will face in the next five years?

A. The major asset of the OECD anti-corruption system is exactly this direct, non-diplomatic monitoring mechanism, which subjects even the strongest economic powers to public critique. It will gradually bring about significant change over the coming years.

I see, however, two major challenges ahead: We should not forget that bribery is (on both sides) typically criminality of the powerful and that there is a real temptation for economic or political interference in investigations. On the other hand, anti-corruption work by the OECD will only remain meaningful as long as the major exporting nations participate.

Q. How do we get Brazil, Russia, India and China, collectively known as the BRIC countries, fully on board in the fight against corruption?

A. First, all of these countries are already involved in the United Nations anti-corruption initiative. Second, their links to the OECD are getting stronger: Brazil is already a member of the Working Group on Bribery, and intensive talks about participation have taken place with China and Russia. As well, China and Russia have participated in the working group as ad hoc observers in the past. The BRIC countries and members of the OECD convention acknowledge that participating in the anti-corruption work is beneficial to all.

Q. What should businesses be doing to advance the agenda for anti-corruption efforts?

A. I am convinced that the most significant contribution to the anti-corruption agenda in the near future will be made by the private sector, be it with the help of industry standards, such as those of the World Economic Forum Partnering Against Corruption Initiative, or through company-specific compliance systems.

“The exposure in the media is what gets people’s attention. People follow what is happening in the news and not necessarily what is happening in the courts.”

Jean-Pierre Méan

regulatory enforcement action has strengthened over the last five years and 71% believe it will get tougher still in the next five years. Government action is a critical component in creating the level playing field that companies desire. If government efforts are not sustained and increased, there is a danger that the fight against corruption will suffer. In the survey, 65% of respondents say a level playing field is crucial to their company’s future business activities. Yet progress on this front remains uneven. For example, the OECD anti-bribery convention has 37 signatories, but only 14 enforce the rules with any vigour.<sup>9</sup> “Governments need to somehow find the political will to stop corruption at the source, to get their houses in order if there is going to be significant improvement,” says Mr McGhie of VimpelCom.

Governments also work through the development banks that they fund, such as the World Bank, the Asia Development Bank and the European Bank for Reconstruction and Development. Businesses frequently look to these banks to help reduce the demand side of corruption by setting rules on contracts and helping governments to establish efficient and stable institutions. “The multilateral institutions can really be helpful because some of these countries need a push,” says Mr Murdy of Newmont. “If people at the World Bank or the United Nations or some of these institutions that have leverage in these countries can really take a role on that side, I think that’s really the next frontier.”

In 2007, the international financial institutions agreed to harmonise their approaches to investigating fraud and corruption in their lending programmes.<sup>10</sup> The World Bank, for example, has begun to use integrity pacts

(or “no-bribes agreements,” first developed by Transparency International) between governments and companies bidding on a project. These pacts, which have been used in more than 80 projects around the world both inside and outside of the World Bank,<sup>11</sup> specify sanctions, which can include cancellation of the contract, liability for damages and disqualification from future government contracts.

The challenge ahead for governments is two-fold: first, to encourage those governments that have ratified but not enforced international anti-corruption conventions to increase their efforts; and, second, to reach out to those countries who have not yet joined.

While stronger enforcement by governments has raised awareness of corruption and its costs, so too have campaigns by watchdog advocacy groups, chief among them Transparency International. Its programmes and publications have sensitised the international media, and through them the public, to the prevalence and cost of corruption.

Given the fact that people have become more sensitised to corruption, it is not surprising that respondents to our survey say that a company’s reputation is its most vulnerable asset once corruption is made public. The threat of negative coverage can be a powerful incentive for companies to ensure they have prevention programmes in place. “The exposure in the media is what gets people’s attention,” says Jean-Pierre Méan, group general counsel for SGS Group, a global certification company based in Switzerland. “People follow what is happening in the news and not necessarily in the courts.”





# Conclusion

The need to fight corruption has taken firm root in the private sector. The survey and interviews conducted for this report show widespread use of anti-corruption programmes. They are a logical extension of efforts already underway to improve corporate social responsibility. The challenge now is to make existing programmes more effective and to educate all companies, large and small, about the business case for having an anti-corruption strategy. Learning from others, many companies would be able to mitigate and manage risk sufficiently to pursue new opportunities even in unfamiliar markets.

There is clear evidence that managing corruption risk is part of good governance and adds to the value of the corporate brand. Help is available for those companies that need a hand.

In the last decade, momentum has been building, with companies, governments and non-governmental organisations often working together to make corruption a priority. Still, challenges lie ahead.

Emerging markets, including fast-growing economies such as Brazil, Russia, India and China, offer attractive investment opportunities but also present challenges. There may be opportunities where the risks outweigh the potential benefits, but there is also encouraging evidence that corruption risks can be managed. This is true even in the most challenging countries if companies take the right approach in developing and implementing a robust and comprehensive anti-corruption strategy.

There may never be a level playing field where companies compete solely on the basis of merit and not on the size of bribes. Yet, driven by their overall corporate social responsibility efforts and the increasingly attractive global opportunities available, firms have every incentive to make effective anti-corruption programmes a key part of their overall business strategy.

# Endnotes

- <sup>1</sup> See “New Report Shows Strong Action in World Bank’s Global Anti-Corruption Fight,” World Bank press release, December 18, 2007.
- <sup>2</sup> See speech by Alice S Fisher, assistant attorney general of the US Department of Justice, to the American Bar Association, October 16, 2006.
- <sup>3</sup> See “Illicit Oil-for-Food Programme Payments of nearly \$2 Billion to Saddam Hussein; IIC Urges UN Reform,” press release, Independent Inquiry Commission, October 27, 2005, page 6.
- <sup>4</sup> See The Conference Board press release, December 5, 2006.
- <sup>5</sup> See *Business Principles for Countering Bribery: Guidance Document*, Transparency International, November 2004.
- <sup>6</sup> There were 74 respondents from BRIC countries out of a total of 390 responses. Because the sample size is small, the results should be treated with caution.
- <sup>7</sup> See Policy and Business Practices at [www.iccwbo.org](http://www.iccwbo.org), accessed December 9, 2007.
- <sup>8</sup> See Unlocking the Corruption Dilemma from the United Nations Global Compact Leaders Summit July 5-6, 2007.
- <sup>9</sup> See *Progress Report 07: Enforcement of the OECD Convention on Combating Bribery of Foreign Public Officials*, Transparency International, July 2007
- <sup>10</sup> See “New Report Shows Strong Action in World Bank’s Anti-Corruption Fight,” World Bank press release, December 18, 2007.
- <sup>11</sup> See “Civil Society and the Private Sector: Fighting Corruption Is Good for Business,” by Huguette Labelle, chairman of Transparency International, in *Development Outreach*, The World Bank Group, September 2006.

# Appendix

## Survey methodology

### Analysis

The survey relies on a variety of question formats. For example, in a number of questions, respondents were asked to respond on a scale of 1 to 5 with 1 being “strongly agree” and 5 being “strongly disagree.” In other cases, comparison phrases such as “highly accurate / not accurate” or “very valuable / no value” were used within a similar five-point scale to capture attitudes and practices. In still other cases, respondents were asked to choose their top three answers or select all that applied. Finally, questions were presented where respondents were asked to choose one they believed to be the most appropriate from among several options. The report itself uses actual percentages from the survey in every case. But, in many situations, the analysis may combine two similar categories of answers (such as all those respondents who chose 1 or 2) to draw its conclusions. While such combinations are referenced in all cases, the tables themselves (appearing on the following pages) are often useful for a more detailed view of the responses.

### Geography

The respondent locations were well dispersed geographically, with a survey focus on non-OECD countries (63%)—approximately, 42% Asia-Pacific, 16% Middle East and Africa, 23% Western Europe, 8% North America, 5% Latin America and 5% Central and Eastern Europe.

### Industry sector

The survey results come from executives across the spectrum of industry sectors. Those sectors represented in the survey by 5% or more of respondents, in order of frequency, are financial services (28%), manufacturing (11%), professional services (9%), IT and technology (8%), consumer goods (6%), telecoms (6%), energy and natural resources (5%) and healthcare, pharmaceuticals and biotechnology (5%).

### Seniority of respondents

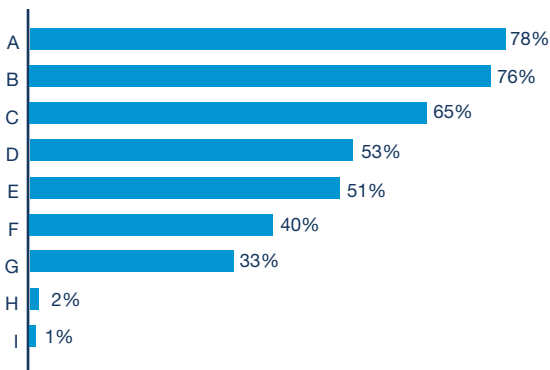
A cross-section of executives responded to the survey, at the board/C-suite level or equivalent (41%), senior vice president / head of business unit level or equivalent (34%) and manager level or other (25%).

# Results of the survey

In November 2007 the Economist Intelligence Unit conducted an online survey of 390 executives on the subject of global corruption and anti-corruption activity. Our sincere thanks go to all those who took part in the survey.

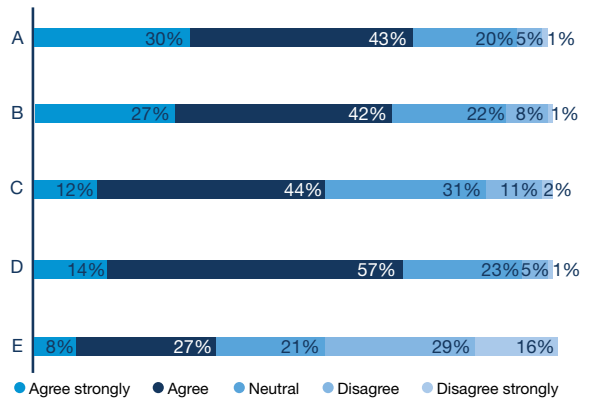
The pages that follow show the survey questions in the order asked, along with respondent results in percentages. Please note that not all answers add up to 100%, because of rounding or because respondents were able to provide multiple answers (these questions have been noted as such).

## 1. Which of the following forms of corruption do you believe are prevalent among global companies? Select all that apply.



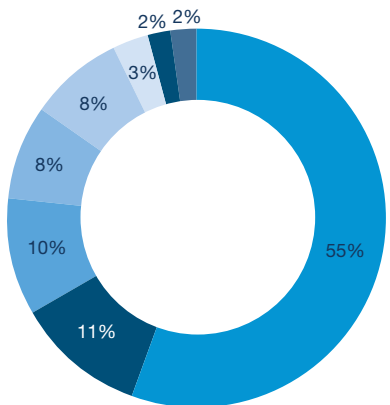
- A. Indirect payments (e.g., payments to agents, intermediaries or other third parties)
- B. Inappropriate gifts, hospitality, entertainment, travel
- C. Non-cash payments (company products, services, favours, etc.)
- D. Sponsorships (e.g., for an event or participation at an event) or donations to extortionist's preferred causes
- E. Political donations
- F. Employee expenses (e.g., bribes made via employee/corporate credit cards)
- G. Direct payments (e.g., payments made directly from company bank accounts or petty cash)
- H. Other
- I. Don't know

## 3a. What is your view of corruption?



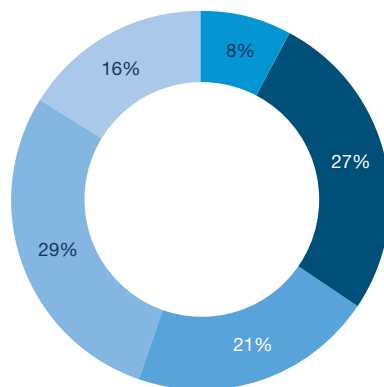
- A. The issue of corruption has become more important over the past 5 years
- B. The issue of corruption will become more important over the next 5 years
- C. Regulatory enforcement action has been strengthened over the past 5 years
- D. Regulatory enforcement action will be strengthened over the next 5 years
- E. Corruption is a cost of doing business and cannot be eradicated

## 2. If corruption was discovered at your company, in which of the following areas would the impact be most severe?



- Corporate reputation
- Legal/enforcement action
- Regulatory action
- Loss of human capital (recruiting, morale, turnover)
- Financial loss
- Operational interruption
- Don't know
- Enforcement costs

## 3b. Is corruption a cost of doing business that cannot be eradicated?

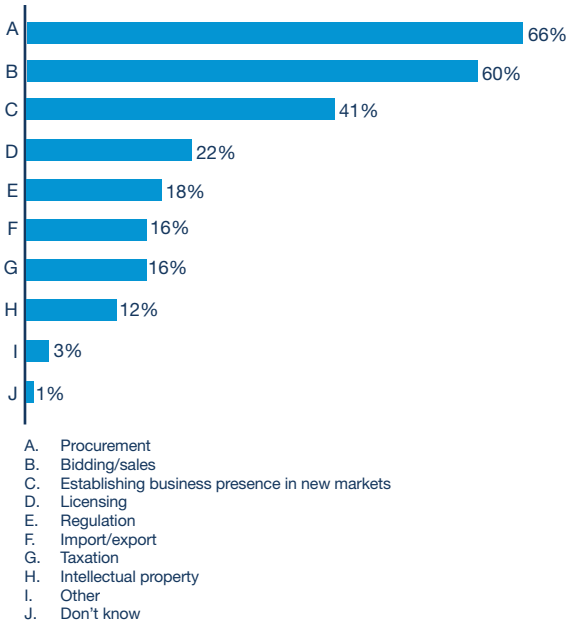


- Agree strongly
- Agree
- Neutral
- Disagree
- Disagree strongly

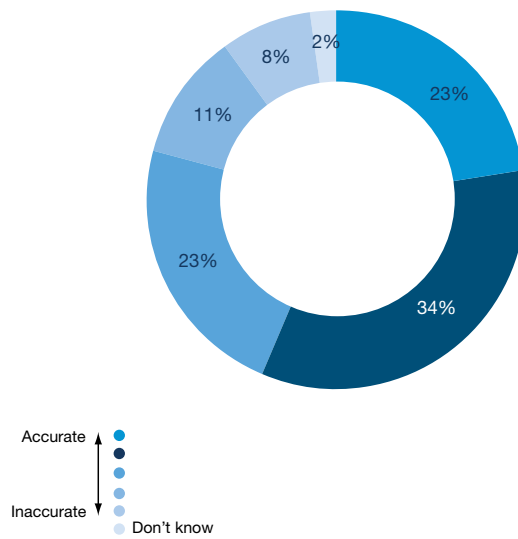
Results of the survey

Respondents' answers to the survey questions are illustrated in the following figures.

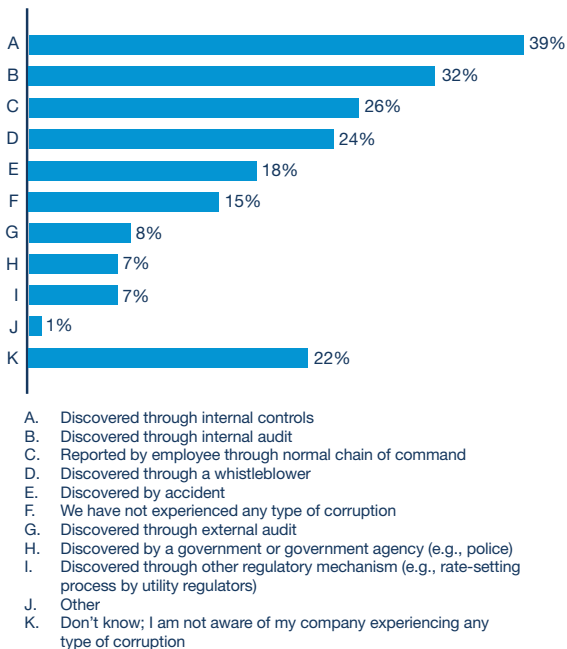
4. In your industry, in which functional areas of business do you think companies are at greatest risk of corruption? Select up to three.



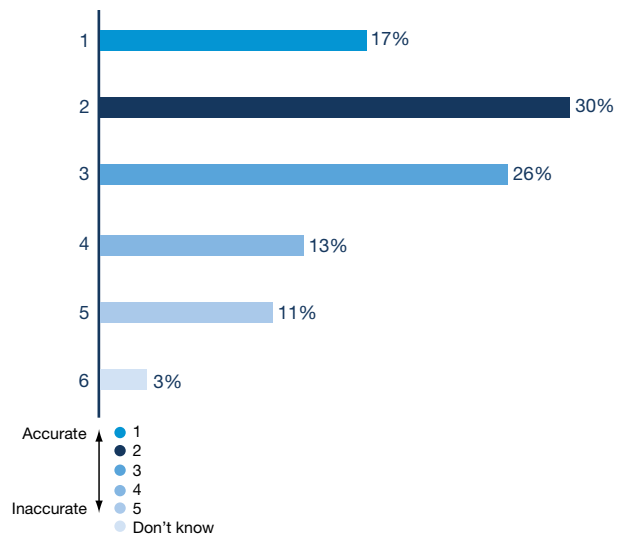
6a. The risk of corruption is always considered when making significant business decisions.



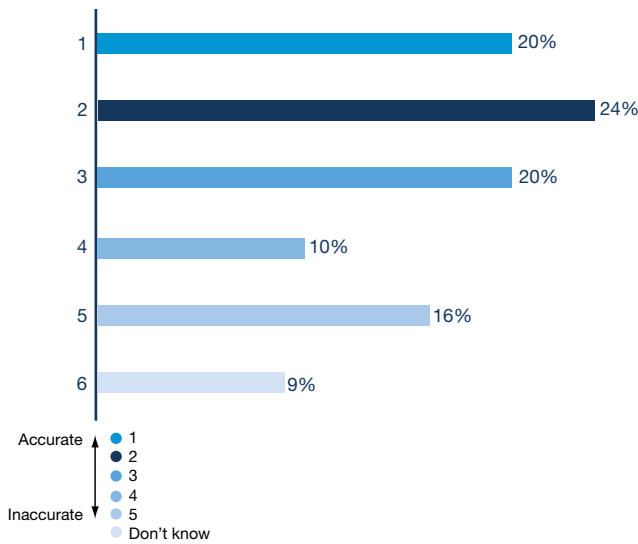
5. If your company has experienced corruption (attempted or actual), how was it discovered?



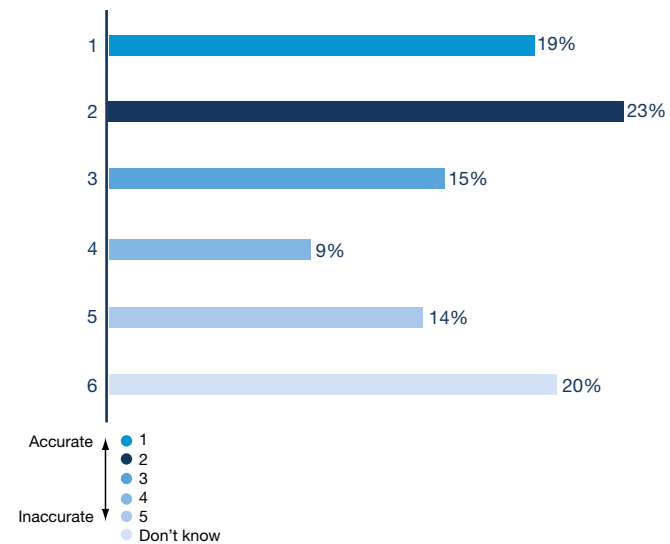
6b. The corruption risk assessment process at my company is rigorous.



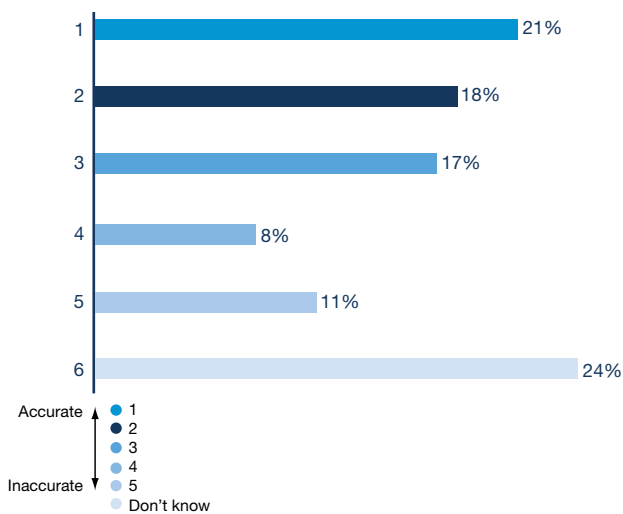
**6c. Corruption risks precluded my company from entering specific markets or from pursuing significant opportunities that it would otherwise have considered.**



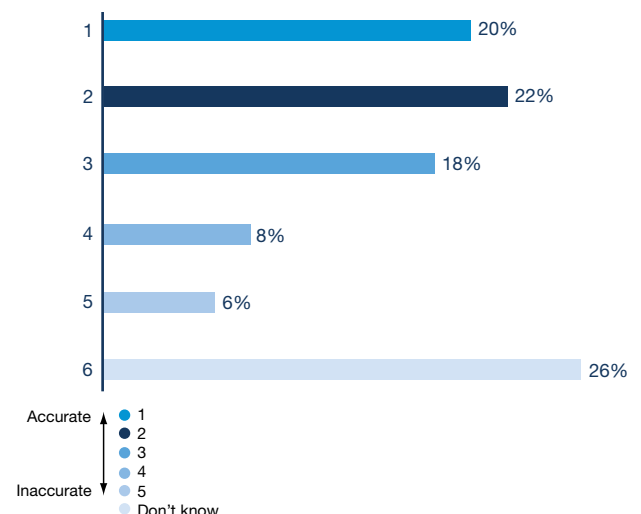
**6e. My company has withdrawn from a tender in the past because we were concerned over the expectation of “personal favours.”**



**6d. My company has lost bids due to corrupt officials handling the bidding.**



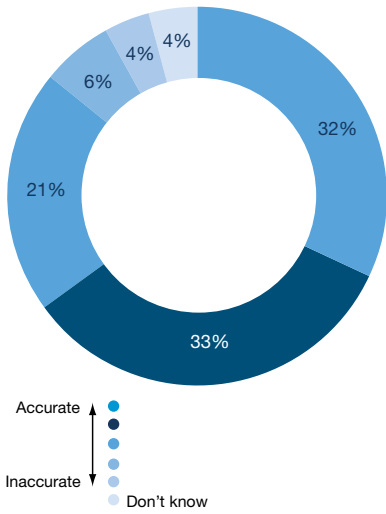
**6f. Our competitors have relied on bribes to improve their position.**



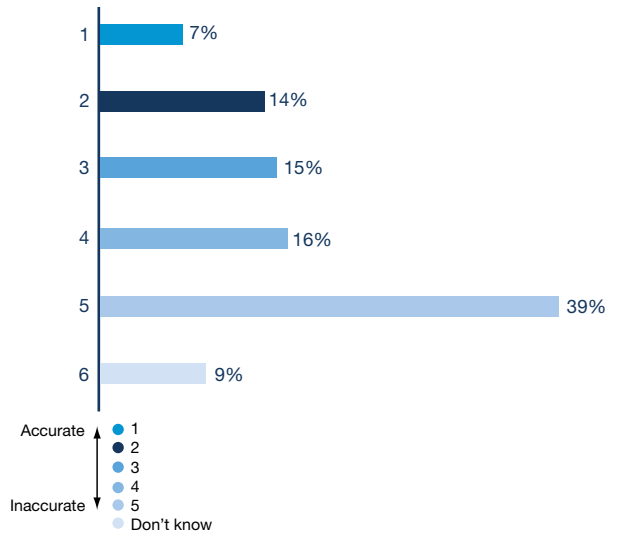
Results of the survey

Respondents' answers to the survey questions are illustrated in the following figures.

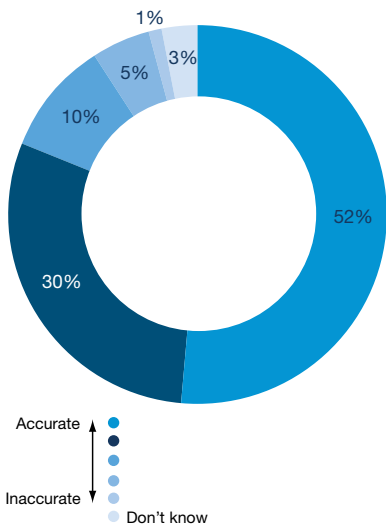
**6g. Creating a level playing field is crucial to my company's future business activities.**



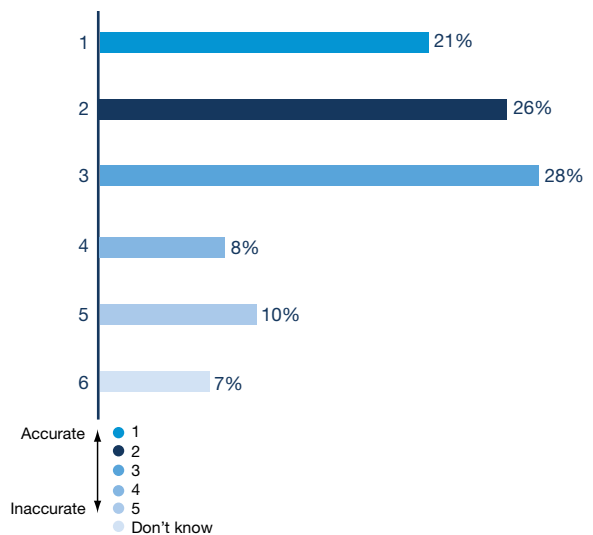
**6i. Penalties due to corruption enforcement actions would diminish our ability to attract/retain employees.**



**6h. Strengthening anti-corruption measures globally would benefit my company.**

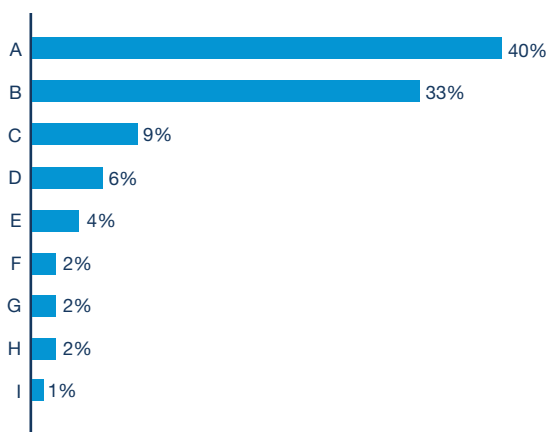


**6j. Interactions with government increase likelihood of corruption among companies.**



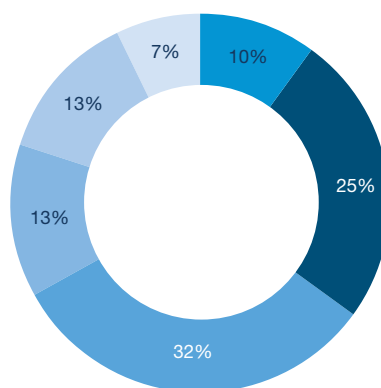


**7. In your view, who is primarily responsible for preventing corruption at companies?**



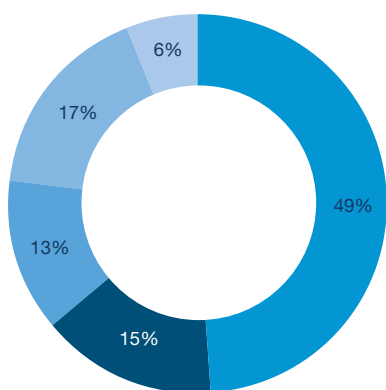
- A. Senior management
- B. All staff members are responsible for their own ethical high standards
- C. Internal audit
- D. Local management / business units
- E. Regulatory / compliance officer
- F. Government / government agencies
- G. Office of general counsel / lawyers
- H. External auditors
- I. Other

**9. If your company has controls and programmes related to corruption, how would you describe them?**



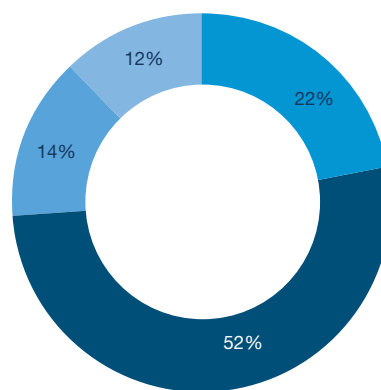
- Primarily controls designed to detect corruption after it occurs
- Include proactive risk assessments and monitoring of corruption risks
- Primarily controls designed to prevent corruption before it occurs
- Ad hoc / event driven
- We do not have controls or programmes in place relating to corruption
- Don't know

**8. Does your company have a specific global programme that includes policies and controls designed to prevent and detect corruption?**



- Yes, and it is clearly communicated and enforced
- Yes, but it is not clearly communicated
- Yes, but it is not clearly communicated or enforced
- No, we do not have a policy in this area
- Don't know

**10. How confident are you that your controls/ programmes identify and mitigate corruption risk?**

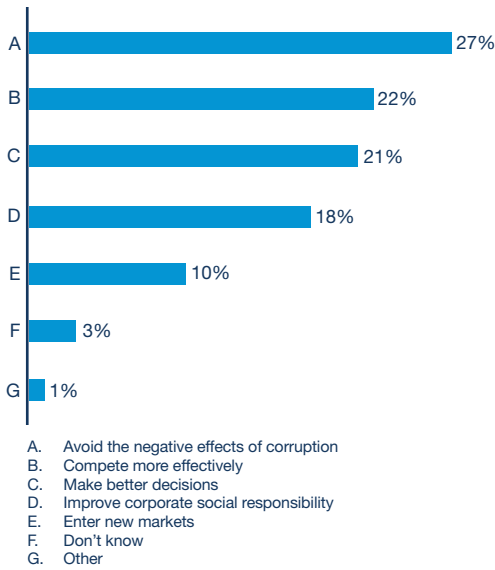


- Very confident
- Somewhat confident
- Not at all confident
- Don't know

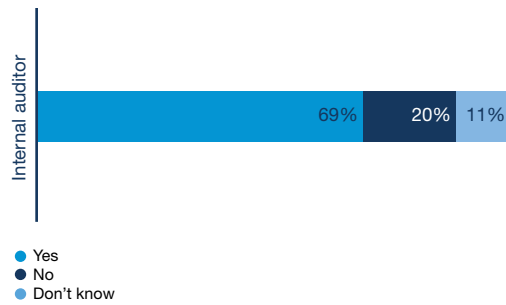
Results of the survey

Respondents' answers to the survey questions are illustrated in the following figures.

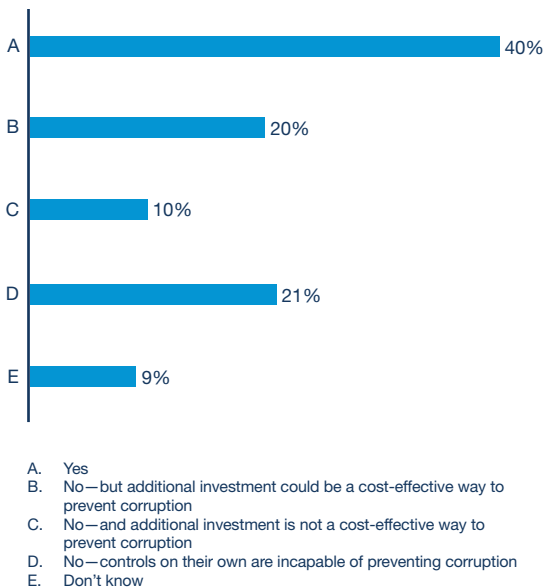
11. In your view, how would a better understanding of corruption risk most help your company?



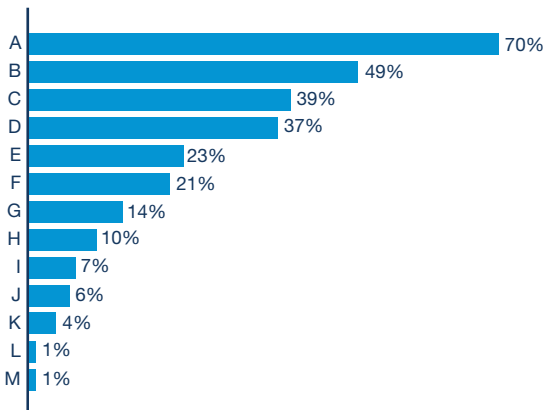
13. Do you think internal auditors in your industry are performing procedures that are likely to detect instances of corruption?



12. Do you think your current controls are effective at identifying high-risk business partners and suspect disbursements?

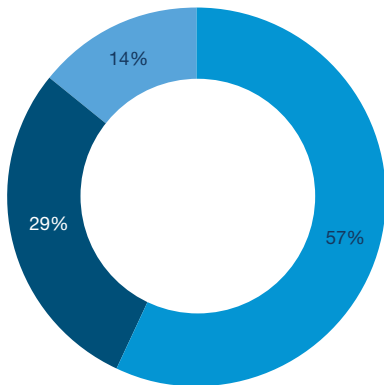


**14. In your view, what are the most effective ways to minimise the likelihood of corruption at a company?**



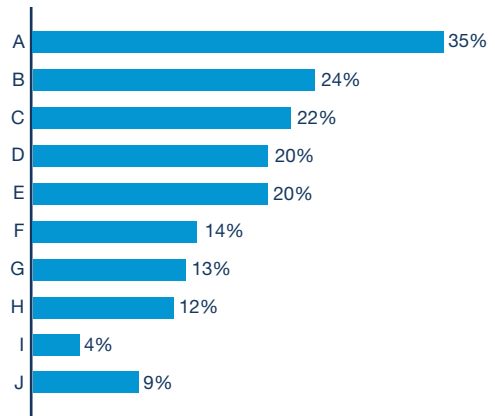
- A. Commitment from senior management
- B. Communicate clear guidelines policies
- C. Hire people with high ethical standards
- D. Consistently take action against all perpetrators
- E. Provide adequate training
- F. Enhanced controls over risky transactions
- G. Whistleblower hotlines
- H. Create support networks and employee assistance programmes
- I. Aggressive enforcement by regulatory agencies
- J. Additional external government regulation/oversight
- K. Collaborating in industry or non-governmental organisation initiatives
- L. Other
- M. Don't know

**15. Do you think the severity of potential government enforcement action in regards to a corrupt act would be reduced if a strong anti-corruption programme is in place at a company?**



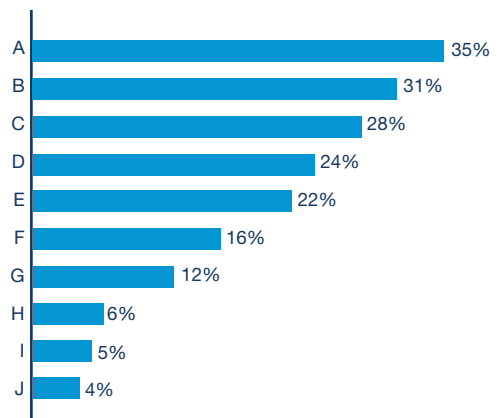
- Yes
- No
- Don't know

**16a. In your view, what are the greatest barriers to implementing a successful anti-corruption programme at your firm?**



- A. Country-specific cultural practices and ways of doing business
- B. Competitive pressures
- C. Conflicting interests; competitiveness vs. ethical control
- D. Corporate culture
- E. Cost
- F. Systemic government corruption
- G. Organisational structure
- H. Industry practices
- I. Judicial corruption
- J. Don't know

**16b. In your view, what are the greatest barriers to implementing a successful anti-corruption programme in your industry?**

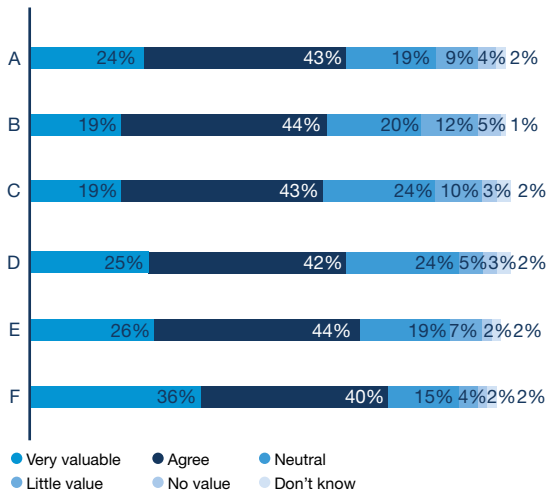


- A. Country-specific cultural practices and ways of doing business
- B. Competitive pressures
- C. Conflicting interests; competitiveness vs. ethical control
- D. Systemic government corruption
- E. Industry practices
- F. Corporate culture
- G. Cost
- H. Judicial corruption
- I. Organisational structure
- J. Don't know

## Results of the survey

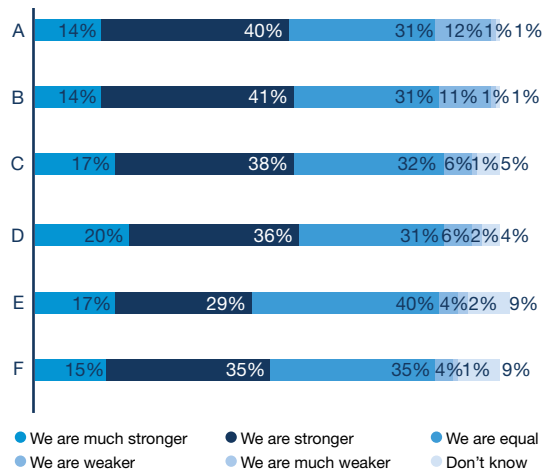
Respondents' answers to the survey questions are illustrated in the following figures.

### 17. How valuable do you think external stakeholders would find the following actions taken by a company?



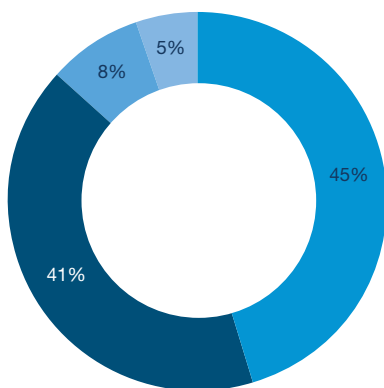
- A. Statement that an anti-corruption programme has been implemented
- B. Statement that an anti-corruption programme has been internally verified
- C. Statement that an anti-corruption programme is in compliance with an industry or non-governmental organisation standard
- D. Statement that an anti-corruption programme has been externally verified by a third party
- E. Public report by external auditor stating that an anti-corruption programme has been designed effectively
- F. Public report by independent auditor stating that an anti-corruption programme is operating effectively

### 19. In your view, how does your company compare to its closest industry competitors in the following areas?



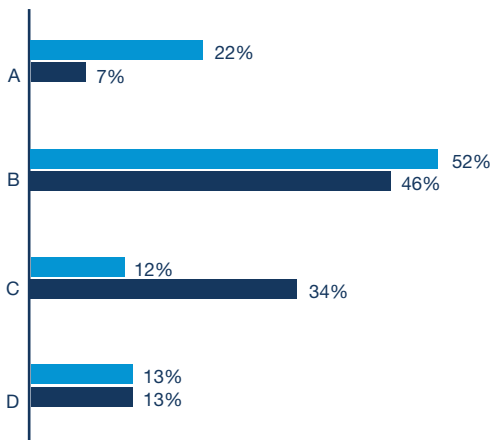
- A. Profitability
- B. Revenue growth
- C. Transparency initiatives
- D. Company's commitment to corporate social responsibility
- E. Company's commitment to internal anti-corruption initiatives
- F. Company's openness to collaborate with third parties (e.g., civil society, governments, competitors) on anti-corruption initiatives

### 18. What is the value to your company's reputation and/or brand in having a publicly disclosed anti-corruption programme and controls?



- Very valuable
- Somewhat valuable
- Not at all valuable
- Don't know

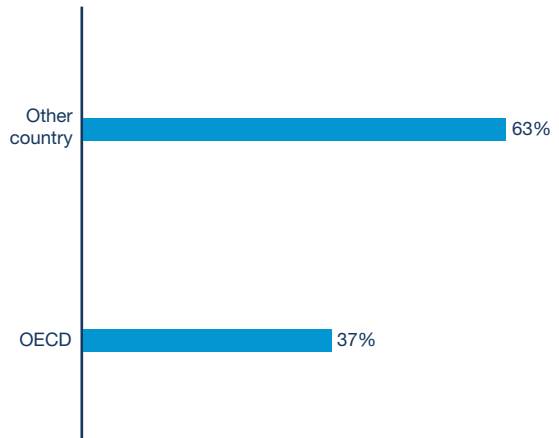
20. In your view, how effective are industry-led global anti-corruption programmes currently and how effective do you think industry-led global anti-corruption programmes will be five years from now?



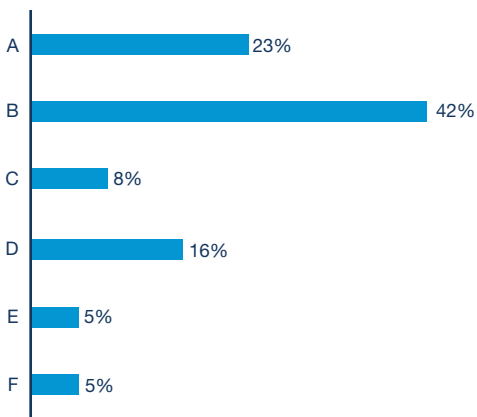
- In your view, how effective do you think industry-led global anti-corruption programmes will be five years from now?
- In your view, how effective are industry-led global anti-corruption programmes currently?

- A. Very effective
- B. Somewhat effective
- C. Not effective
- D. Don't know

22. Are you based in an OECD country?

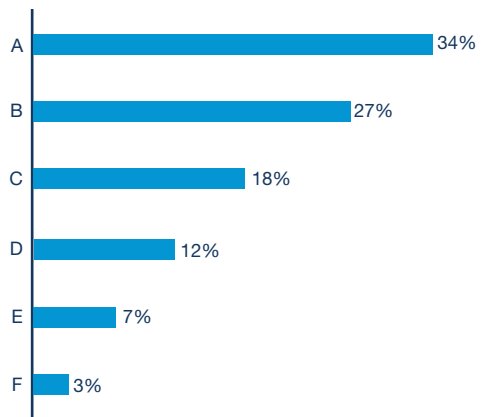


21. In which region are you personally located?



- A. Western Europe
- B. Asia-Pacific
- C. North America
- D. Middle East and Africa
- E. Central and Eastern Europe
- F. Latin America

23. In which region is your company headquartered?

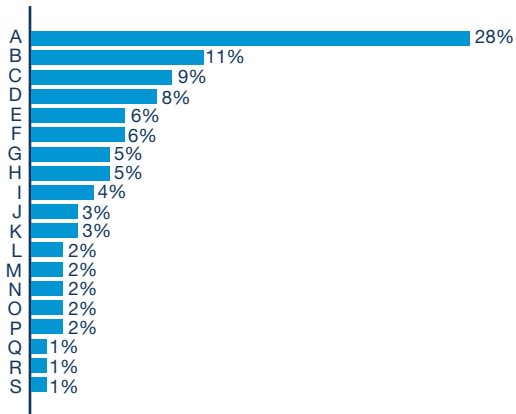


- A. Western Europe
- B. Asia-Pacific
- C. North America
- D. Middle East and Africa
- E. Eastern Europe
- F. Latin America

## Results of the survey

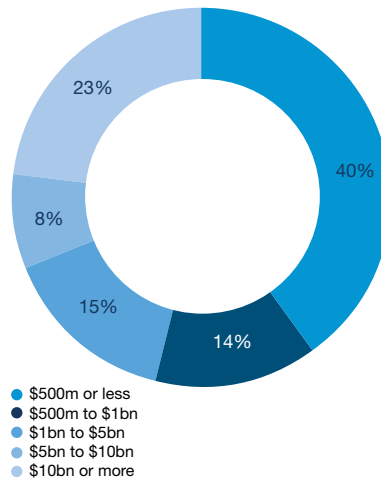
Respondents' answers to the survey questions are illustrated in the following figures.

### 24. What is your primary industry?



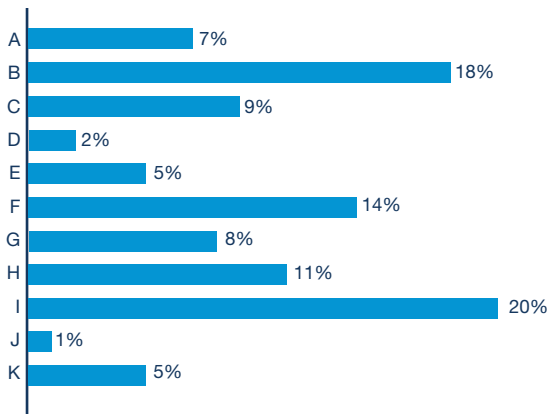
- A. Financial services
- B. Manufacturing
- C. Professional services
- D. IT and technology
- E. Consumer goods
- F. Telecoms
- G. Energy and natural resources
- H. Healthcare, pharmaceuticals and biotechnology
- I. Transportation, travel and tourism
- J. Education
- K. Chemicals
- L. Other
- M. Automotive
- N. Retailing
- O. Construction and real estate
- P. Logistics and distribution
- Q. Entertainment, media and publishing
- R. Aerospace and defence
- S. Agriculture and agribusiness

### 25. What are your company's annual global revenues in US dollars?



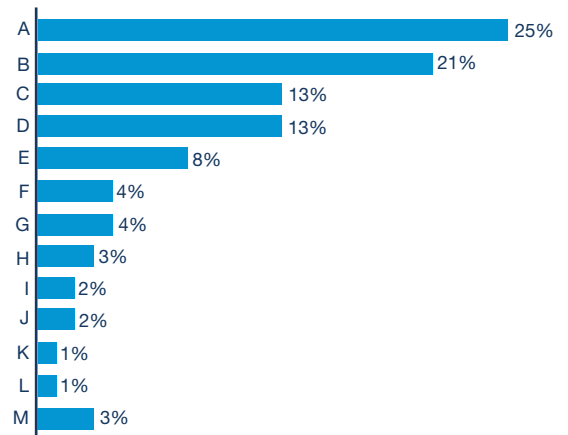
- \$500m or less
- \$500m to \$1bn
- \$1bn to \$5bn
- \$5bn to \$10bn
- \$10bn or more

**26. Which of the following best describes your title?**



- A. Board member
- B. CEO / president / managing director
- C. CFO / treasurer / comptroller
- D. CIO / technology director
- E. Other C-level executive
- F. SVP / VP / director
- G. Head of business unit
- H. Head of department
- I. Manager
- J. Country manager
- K. Other

**27. What is your main functional role?**



- A. General management
- B. Finance
- C. Marketing and sales
- D. Strategy and business development
- E. Risk
- F. Operations and production
- G. IT
- H. Information and research
- I. R&D
- J. Customer service
- K. Human resources
- L. Legal
- M. Other

the 1990s, the number of people in the world who are undernourished has increased from 600 million to 800 million. The number of people who are malnourished has increased from 1.2 billion to 1.5 billion. The number of people who are obese has increased from 100 million to 300 million.

There are a number of reasons for this. One of the main reasons is that the world population has increased from 5 billion to 6 billion.

Another reason is that the world population is becoming more urbanized. This means that there are more people living in cities and towns, where food is more expensive and less available.

A third reason is that the world population is becoming more aged. This means that there are more people who are old and who need more food.

There are also a number of other reasons for this. One of them is that the world population is becoming more educated. This means that there are more people who are aware of their health and who are trying to eat better.

Another reason is that the world population is becoming more mobile. This means that there are more people who are moving from rural areas to cities and towns, where food is more expensive and less available.

A third reason is that the world population is becoming more diverse. This means that there are more people who are from different cultures and who have different eating habits.

There are also a number of other reasons for this. One of them is that the world population is becoming more affluent. This means that there are more people who have more money and who can afford to eat better.

Another reason is that the world population is becoming more health conscious. This means that there are more people who are aware of their health and who are trying to eat better.

A third reason is that the world population is becoming more environmentally conscious. This means that there are more people who are aware of the environment and who are trying to eat better.

There are also a number of other reasons for this. One of them is that the world population is becoming more technologically advanced. This means that there are more people who are using technology and who are trying to eat better.

Another reason is that the world population is becoming more socially conscious. This means that there are more people who are aware of social issues and who are trying to eat better.

A third reason is that the world population is becoming more environmentally friendly. This means that there are more people who are aware of the environment and who are trying to eat better.

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The firms of the PricewaterhouseCoopers global network ([www.pwc.com](http://www.pwc.com)) provide industry-focused assurance, tax and advisory services to build public trust and enhance value for clients and their stakeholders. More than 146,000 people in 150 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

The depth of our industry expertise, like our international perspective, is an attribute that our clients value highly. We invest significant resources in building and sharing such expertise. As a result, the people of PricewaterhouseCoopers have the scope, depth and expertise to advise companies on the issues facing their business in a converging world. We work with these companies to help them achieve success and fulfill the promise of great ideas.

### For further information, please contact

Chris Kelkar  
Partner, Global Anti-corruption Services  
[christopher.s.kelkar@us.pwc.com](mailto:christopher.s.kelkar@us.pwc.com)  
+1 646 471 8963

David Jansen  
Partner, Global Anti-corruption Services  
[david.jansen@us.pwc.com](mailto:david.jansen@us.pwc.com)  
+1 646 471 8329

### Global Anti-corruption Services

Our practice understands that with increasing concern about the impacts of corruption and a focus on corporate citizenship, companies and stakeholders are pursuing practical ways to reduce corruption risk.

Our anti-corruption professionals include experienced forensic accountants, international development professionals, economists, former regulators and law enforcement officials and specialists in forensic technology and document management.

To help our clients manage risk, we combine local professionals in 150 countries with our anti-corruption specialists to deliver entity-wide solutions tailored to local markets. As trusted advisors to leading anti-corruption institutions, we have developed cutting-edge anti-corruption methodologies which we use to help our clients.

### Acknowledgements

We would like to thank the people at PricewaterhouseCoopers who worked diligently to develop this publication. The *Confronting Corruption* team was led by:

Jacob Schmidt  
Krishan Ramessur

### How we can help clients operate in challenging environments

- Identify corruption risks by performing rigorous risk assessments
- Assist in the design and implementation of anti-corruption policies, programmes and controls
- Identify and develop responses to weaknesses in programmes and controls
- Conduct independent assessments of anti-corruption programmes and controls
- Enhance corruption awareness by training client personnel
- Execute corruption-specific due diligence procedures
- Tailor technology solutions to monitor and detect corruption
- Perform corruption investigations

PricewaterhouseCoopers delivers value with a global perspective through local implementation. Please contact the anti-corruption leader nearest you to discuss the challenges facing your company and how we can help you.

### Australia

Malcolm Shackell  
malcolm.shackell@au.pwc.com  
+61 2 8266 2993

### Brazil

Alfredo Sneyers  
alfredo.sneyers@br.pwc.com  
+55 11 3674 3686

### Canada

Steven Henderson  
steven.p.henderson@ca.pwc.com  
+1 416 941 8328

### China

Jean Roux  
jean.roux@cn.pwc.com  
+86 21 6123 3988

### Colombia

Diego Henao  
diego.henao@co.pwc.com  
+57 1 635 5016

### France

Jean-Louis Di Giovanni  
jean-louis.di.giovanni@fr.pwc.com  
+33 15 657 1257

### Germany

Claudia Nestler  
claudia.nestler@de.pwc.com  
+49 69 9585 5552

### Ghana

Felix Addo  
felix.addo@gh.pwc.com  
+233 21 761 614

### Hong Kong

Rick Heathcote  
rick.heathcote@hk.pwc.com  
+852 2289 1155

### India

Vali Nijhawan  
vali.nijhawan@in.pwc.com  
+91 124 462 0508  
Anuradha Tuli  
anuradha.tuli@in.pwc.com  
+91 124 462 0514

### Italy

Franco Lagro  
franco.lagro@it.pwc.com  
+390 2 7785 593

### Japan

Owen Murray  
owen.murray@jp.pwc.com  
+81 3 6266 5579

### Hajime Yasui

hajime.yasui@jp.pwc.com  
+81 90 6045 6835

### Kenya

Philip Kinisu  
philip.b.kinisu@ke.pwc.com  
+254 20 285 5319

### Jack Ward

jack.ward@ke.pwc.com  
+254 20 285 5214

### Netherlands

Peter Cromhout  
peter.cromhout@nl.pwc.com  
+31 20 568 6430

### Russia

Roger Stanley  
r.stanley@ru.pwc.com  
+7 495 232 5420

### Singapore

Subramaniam Iyer  
subramaniam.iyer@sg.pwc.com  
+65 6236 3058

### South Africa

Peter Goss  
peter.goss@za.pwc.com  
+27 12 429 0331

### Louis Strydom

louis.strydom@za.pwc.com  
+27 12 429 0077

### Spain

Enrique Bujidos Casado  
enrique.bujidos@es.pwc.com  
+34 91 568 4356

### Tanzania

Edmund B Mndolwa  
edmund.b.mndolwa@tz.pwc.com  
+255 22 219 2032

### Tony Kingsley

tony.kingsley@tz.pwc.com  
+255 22 213 3100

### Thailand

Charles Ostick  
charles.ostick@th.pwc.com  
+66 2 344 1167

### United Arab Emirates

Amin Nasser  
amin.nasser@ae.pwc.com  
+971 4 3043120

### United Kingdom

Andrew Clark  
andrew.p.clark@uk.pwc.com  
+44 207 804 5761

### Will Kenyon

will.kenyon@uk.pwc.com  
+44 207 212 2623

### United States

Manny Alas  
manny.a.alas@us.pwc.com  
+1 646 471 3242

### Chris Barbee

chris.barbee@us.pwc.com  
+1 267 330 3020

### Greg Bardnell

greg.bardnell@us.pwc.com  
+1 202 414 1300

### Jonny Frank

jonny.frank@us.pwc.com  
+1 646 471 8590

### David Jansen

david.jansen@us.pwc.com  
+1 646 471 8329

### Chris Kelkar

christopher.s.kelkar@us.pwc.com  
+1 646 471 8963

### James Meehan

james.r.meehan@us.pwc.com  
+1 415 498 6531

### Fred Miller

frederic.r.miller@us.pwc.com  
+1 202 414 1360

### Peter Raymond

peter.d.raymond@us.pwc.com  
+1 703 918 1580

### Steven Skalak

steven.skalak@us.pwc.com  
+1 646 471 5950

### Dalit Stern

dalit.stern@us.pwc.com  
+1 646 471 8047

### Glenn Ware

glenn.ware@us.pwc.com  
+1 202 312 7668

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