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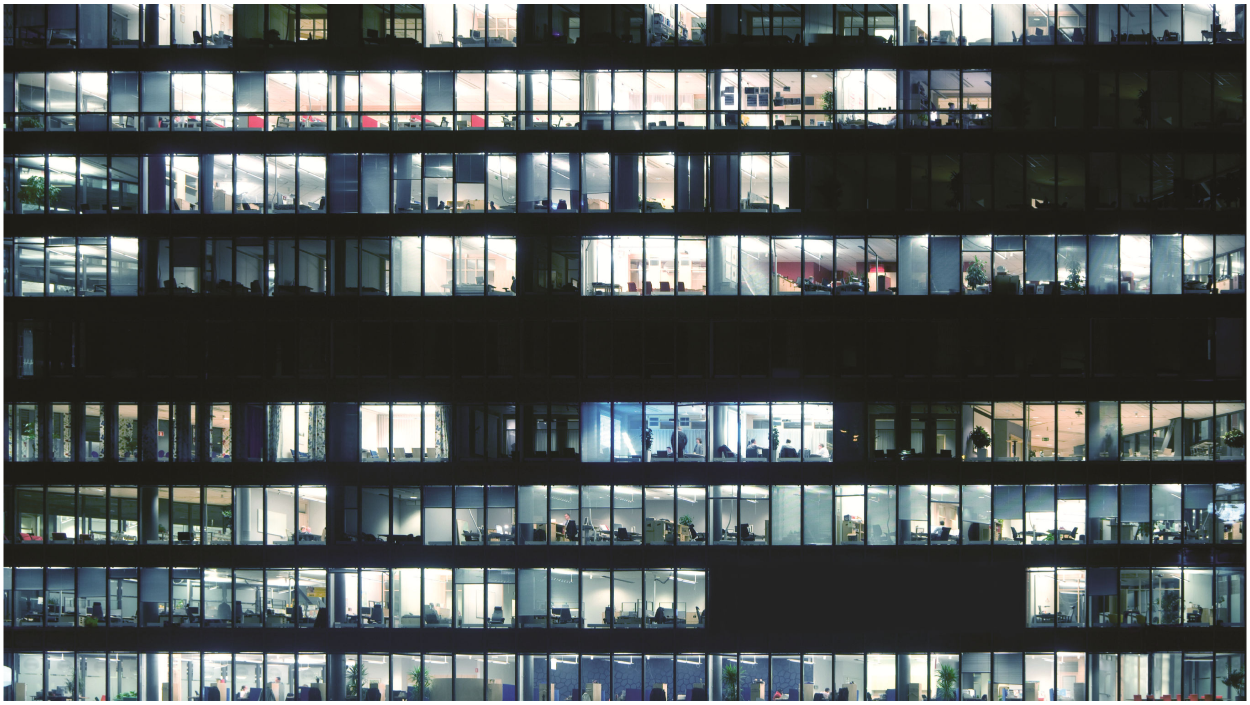


THE BENEFITS OF ANTI-CORRUPTION AND CORPORATE TRANSPARENCY

Companies of all sizes increasingly recognize corruption as a risk reducing competitive advantage by increasing costs and damaging to sustainable growth. For Transparency International, anti-corruption and corporate transparency policies are essential to tackle the roots of corruption in corporations.

Companies are becoming more open about their anti-corruption efforts and operations. There are five key reasons why. First, transparency is the new 'normal', and it is expected by the marketplace. Second, anti-corruption programmes have been consistently seen as measures correlated with good company performance. Third, countering corruption and being open can have a positive influence on a business's bottom line. Fourth, increased transparency is a good means to flag corruption risks, which can arise in any company of any size. Fifth, and finally, transparent reporting on anti-corruption programmes can lead to better overall corporate compliance with regulations.

Companies that have good anti-corruption programmes and openly report on them have a competitive advantage beyond meeting any compliance obligation. They benefit from risk reduction, cost savings and sustainable growth. Through their individual actions, companies help to level the playing field for all. They become leaders in the marketplace as well as leaders of corporate citizenship.

Why an anti-corruption programme?

Corruption is a risk that companies of all sizes increasingly recognise. There has been a positive trend of establishing anti-corruption programmes, which can be universally found in companies, in order to mitigate legal, commercial and reputational risks.

An anti-corruption programme has two benefits. First, it demonstrates a company's response to the legal obligation and responsibility to reduce the risk of corruption. Second, it represents the company's commitment to operate a clean business.

An anti-corruption programme encompasses various dimensions, including: a statement of values, a code of conduct, risk management measures, internal and external communication policies, training and guidance, internal controls, oversight mechanisms, monitoring processes and assurance measures.

An anti-corruption programme should also extend more broadly to policies on corporate transparency, including organisational transparency,[1] country-by-country reporting and beneficial ownership, given their benefits for helping to reduce corruption risks.[2]

Despite the upside of anti-corruption policies and corporate transparency reporting, companies can still be selective about the information that they disclose. For example, a Transparency International assessment of corporate transparency for more than 30 of the world's largest telecommunication companies showed that over 70 per cent score less than half on global measures of corporate transparency, including an equal number that do not disclose where their subsidiaries operate. (See www.transparency.org/news/feature/how_transparent_are_telecommunications_companies.)

WHY BE OPEN?

Like any part of a company's operations, the implementation of an anti-corruption programme should be made open so as to maximise its effectiveness. Recent findings by Transparency International show that higher numbers of global public companies are disclosing information about their anti-corruption programmes. This is a positive step forward.[3]

Establishing an effective anti-corruption programme and being open about it make good business sense.[4] Here are the five reasons why.

- ***Transparency is becoming the 'new normal'.*** In a number of countries and regions, legislation that mandates corporate transparency is either under way or already enacted. Examples include the Dodd–Frank Wall Street Reform and Consumer Protection Act in the United States (2010),[5] the European Union's Capital Requirement Directive IV (2013)[6] and the European Union's Accounting and Transparency Directive (2013).[7]

- ***Anti-corruption policies and transparency drive performance.*** Openly reporting on a company's anti-corruption programme implies that the company has reliable and measurable indicators in place to track internal operations ("what gets measured gets done"). This creates a virtuous cycle whereby reporting is used to gain a better understanding of core business processes in order to improve them internally. Public reporting also sends a strong signal to a firm's stakeholders of its commitment to the programme.

- ***Countering corruption and being open about it can have a positive impact on the company's bottom line.*** Companies committed to countering corruption and being transparent about their activities,

DEBUNKING THE MYTHS

Does being more open hurt competitiveness?

The research makes it clear that it does not. A study by the European Commission in 2014 for the banking sector found that public reporting was not expected to have negative economic impacts, including with regard to competitiveness. On the contrary, some positive effects were to be expected for the European economy, such as increasing public confidence.[22]

Is increased transparency possible?

Companies' own actions are showing that indeed high levels of transparency are possible. In the latest Transparency International report on transparency in corporate reporting, Statoil, Telefónica and Vodafone show that with scores above 50 per cent in country-by-country reporting, increased openness is achievable. [23]

organisational structures and ownership see manifold benefits. These include an increase in sales from ethically concerned customers, a reduction in the cost of capital from risk-adverse investors, the optimisation of internal processes, and increased attractiveness as an employer of choice in increasingly competitive labour markets.

- ***Transparency helps to flag corruption risks.*** Data from the Organisation for Economic Co-operation and Development (OECD) suggests that, from 1999 to 2014, three-quarters of foreign bribery prosecutions involved payments through intermediaries that had business relationships with the bribing company.[8] Anti-corruption programmes that promote transparency help to ensure that companies know with whom they are doing business.

- ***Openness promotes good compliance.*** Regular reporting on anti-corruption efforts can ensure that a company is compliant with regulations. Not doing so brings its own costs. Research indicates that it costs a company an average of US$222 per employee to comply with the law, versus US$820 per employee for not complying.[9]

As these five points shows, anti-corruption reporting by companies demonstrates a broader commitment to corporate transparency, accountability and sustainability.

WHAT ARE THE BENEFITS FOR COMPANIES?

Companies benefit when they put in place measures to entrench an anti-corruption stance and corporate transparency. These actions show that companies are acting as responsible corporate citizens that care about their sustainability. Multiple studies indicate that companies that engage in sustainability practices and sustainability reporting also experience significantly increased profits compared to companies that do not.[10] For example, research shows that companies engaged in sustainability reporting significantly outperform their counterparts over the long term, both in terms of stock market and accounting performance.[11]

Companies can and should link anti-corruption activities and corporate transparency to their sustainability agenda. Such an approach will attract customers, investors, employees and suppliers who are concerned about risks as well as those who value ethical practices. For a company, greater anti-corruption and corporate transparency commitments translate directly into tangible benefits, including risk reduction, cost savings and sustainable growth (see Figure 1). Each of these elements is explained in detail below.

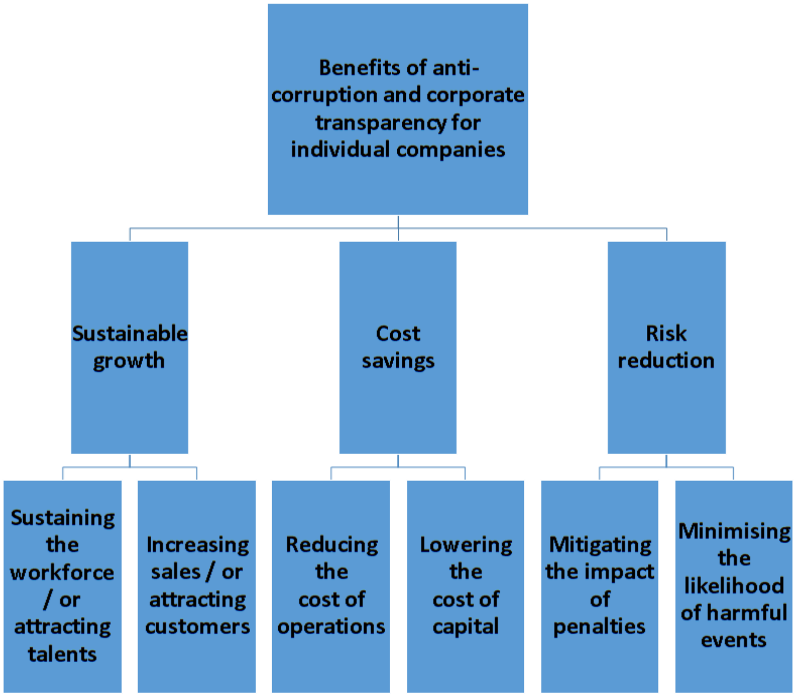
RISK REDUCTION

Companies that demonstrate genuine efforts to alleviate the risks of bribery and corruption are increasingly treated more favourably under national laws, such as in Brazil, the United Kingdom and the United States.[12] These laws allow for significant reductions, or even suspensions, of penalties imposed on companies if strong anti-corruption programmes and practices are found to be in place.[13] Overall, risk reduction through anti-corruption programmes benefits companies in the following ways.

Minimising the likelihood of harmful events. Companies with anti-corruption programmes and ethical guidelines are found to suffer up to 50 per cent fewer incidents of corruption and to be less likely to lose business opportunities than companies without such programmes.[14] There is a direct link between higher levels of corporate transparency and reduced levels of bribery, money laundering and tax evasion.

Mitigating the impact of penalties. A strong anti-corruption stance helps to prevent monetary fines, loss of contracts, debarment from lucrative markets, criminal liability[15] and/or negative press. There are also 'softer' penalties a company can forestall, such as the cost of time to investigate and remediate corruption issues.

Figure 1:



COST SAVINGS

There are two main channels whereby costs can be reduced as a result of anti-corruption and corporate transparency policies.

Lowering the cost of capital. Evidence suggests that the market gives a higher value to companies that are upfront with investors and analysts.[16] More information means more certainty – and thus lower risk. Transparent companies can benefit from favourable risk evaluations, which can translate into greater access to capital, lower interest rates for borrowing[17] or higher stock price valuations.

Reducing operational costs. As a result of anti-corruption programmes and corporate transparency, companies gain measurable cost savings in their day-to-day operations from the following.

- *Improved internal processes.* Detecting operational weaknesses and addressing them result in cost reductions and the prevention of an improper outflow of funds.
- *Access to preferential treatment.* Commercial advantages are offered by public institutions as well as private business partners for companies

ANTI-CORRUPTION POLICIES HAVE THEIR PERKS

Different countries, and even cities, are offering perks to companies that deliver on anti-corruption and corporate transparency commitments.

In Morocco, the Conféderation Géneral des Entreprises de Maroc (CGEM) awards a certification to companies that comply with nine key corporate social responsibility and sustainability principles, including an anti-corruption stance and transparency in corporate governance. Companies can then receive perks when having to deal with tax-related processes.

In the Philippines, so called 'Integrity Lanes' provide advantages for companies with anti-corruption programmes, including reduced tax inspections and audits or faster issuance of important certifications and clearances.

In the United States, the B Lab, a non-governmental organisation, offers certification to companies regarding their social and environmental performance (including anti-corruption policies). Such companies, known as B Corporations, qualify for various benefits, including discounts by office equipment providers and reduced fees from IT service providers. Cities also, in turn, have offered their own incentives to B Corporations, such as a tax credit programme in Philadelphia.

In Egypt, small and medium-sized enterprises that are implementing an anti-corruption and transparency standard become eligible for benefits, such as assistance for capacity building, favourable payment terms and reduced procurement costs and reporting requirements.

adopting an anti-corruption and corporate transparency stance. These benefits include reduced procurement costs, favourable payment terms and lower due-diligence requirements, as well as other process optimisations.

- *Reduced dependencies.* A clear commitment to anti-corruption policies and corporate transparency also helps to reduce the risk of engaging in small payments to prevent time delays or facilitate transactions. One case found that that these payments totalled more than US$40,000 in one year.[18]

SUSTAINABLE GROWTH

Anti-corruption programmes and corporate transparency can provide companies with an economic benefit by showing consumers that they are getting the best deal and their employees that the company is clean. This helps to achieve the following.

Attract customers. When companies are open about what they do, where they do it and who benefits from it, they will be more attractive to customers. It is like a quality seal for making the right choice. Some 75 per cent of participants in a 2014 survey indicated that corporate transparency is largely effective in building trust between business and society.[19] A study found that having an anti-corruption programme in place and publicising it is seen as valuable or very valuable to a company's brand by 86 per cent of the companies surveyed.[20] So-called 'whitelists' can help to promote companies that have a clear commitment to anti-corruption and corporate transparency policies.

Attract a talented workforce. Corporate transparency demonstrates that a company takes ethical business conduct very seriously, motivating employees to be proud of the organisation's integrity and reputation – and enticing them to work there in the first place. For example, a 2015 survey in Asia and the Pacific showed that "nearly 80 per cent of those surveyed said that they would be unwilling to work for organizations involved in bribery and corruption".[21]

CONCLUSION: A WIN-WIN SITUATION

Responsible companies understand that they must undertake continuous efforts to ensure that they counter the risks of corruption effectively. They commit to publicly report on their activities, structures and ownership. Anti-corruption reporting demonstrates a company's broader belief in the value of being open and accountable and how these principles relate to operating a sustainable business.

Companies need to commit to anti-corruption and corporate transparency policies. Every individual company that establishes an anti-corruption programme and publicly reports on it benefits its own operations as well as the overall business environment. Such actions connect to an agenda of being public about operations and help to set a high bar for how companies act, fulfilling any compliance obligations and going beyond them. These changes help to develop a sustainable investment and trading environment in a country and encourage better public- and private-sector decision making.

Now is the time for companies to respond to the demand for greater openness on anti-corruption and corporate activities. To have a sustainable business, this is the only option.

WHITELISTS' BRING COMPANIES BUSINESS

In Brazil, the Cadastro Empresa Pró-Ética, an initiative of the Office of the Comptroller General, aims to give public recognition to companies that invest in ethics, integrity and corruption prevention. The initiative also involves building confidence between the public and private sectors. A similar model is followed in Bulgaria, with a 'whitelist' for companies that have signed an 'integrity pact in public procurement' with different ministries. [24]

Similarly, large companies are establishing lists of preferred business partners that enjoy advantages over peers with otherwise equal commercial status. [25] Rather, these business partners will enjoy advantages over peers with otherwise equal commercial conditions; including, for example, higher sales quotas or a shortened time frame between quotation and procurement. Such partnerships often translate into long-term business relationships.

NOTES

[1] This includes information related to company holdings (such as subsidiaries, branches, affiliates, joint ventures and the like) and conduct.

[2] This includes revenues, capital expenditure and tax payments.

[3] Transparency International (2014).

[4] Transparency International and the United Nations Global Compact have provided guidelines for how companies can best report on their anti-corruption programmes. See United Nations Global Compact and Transparency International, *Reporting Guidance on the 10th Principle against Corruption* (New York: United Nations, 2009).

[5] The Wall Street Reform and Consumer Protection Act, commonly called the Dodd–Frank Act, requires the reporting of payments to governments by extractive companies registered on US stock exchanges on a country-by-country and project-by-project basis. This is still waiting to be transposed into recommendations by the US Securities and Exchange Commission (SEC).

[6] This mandates public country-by-country reporting for credit and financial institutions; see Directive 2013/36/EU: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32013L0036.

[7] This mandates companies operating in the extractive and logging sectors to disclose their payments to governments; see Directive 2013/34/EU: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32013L0034.

[8] Organisation for Economic Co-operation and Development, *OECD Foreign Bribery Report: An Analysis of the Crime of Bribery of Foreign Public Officials* (Paris: Organisation for Economic Co-operation and Development, 2014), p. 29.

[9] The extrapolated average cost of compliance is estimated at more than US$3.5 million, with a range of US$446,000 to over US$16 million. The extrapolated average cost of non-compliance for the same organisations is nearly US$9.4 million, with a range of US$1.4 million to nearly US$28 million. Ponemon Institute, *The True Cost of Compliance: A Benchmark Study of Multinational Organizations* (Traverse City, MI: Ponemon Institute, 2011).

[10] See, for example, Carbon Disclosure Project, *CDP Global 500 Report 2011: Accelerating Low Carbon Growth* (London: Carbon Disclosure Project, 2011); or Harvard Business School, *The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance*, Working Paper no. 12-035 (Boston: Harvard Business School, 2011).

[11] Ibid.

[12] See the United States Federal Sentencing Guidelines, the United Kingdom Bribery Act 2010 and the Brazilian Clean Companies Act.

[13] "Companies can receive rewards in the sense of reduced or suspended sanctions for four types of action: self-policing, self-reporting, cooperation, and remedial action." Humboldt-Viadrina Governance Platform, *Motivating Business to Counter Corruption: A Practitioner Handbook on Anti-Corruption Incentives and Sanctions* (Berlin: Humboldt-Viadrina School of Governance, 2013).

[14] Transparency International, *Global Corruption Report 2009: Corruption and the Private Sector* (Cambridge: Cambridge University Press, 2009).

[15] The United States Department of Justice (DOJ) recently unveiled new guidance to federal prosecutors about bringing criminal cases against individuals in instances of corporate wrongdoing: see www.justice.gov/dag/file/769036/download.

[16] See, for example, David DeBoskey and Peter Gillet, 'The Impact of Multi-Dimensional Corporate Transparency on US Firms' Credit Ratings and Cost of Capital', *Review of Quantitative Finance and Accounting* (vol. 40, 2013); Falko Fecht, Roland Füss and Philipp Rindler, *Corporate Transparency and Bond Liquidity*, Working Paper on Finance no. 1404 (St. Gallen: University of St. Gallen, 2014); Raghuram Rajan and Luigi Zingales, *The Great Reversals: The Politics of Financial Development in the 20th Century*, Working Paper no. 8178 (Cambridge, MA: National Bureau of Economic Research, 2001); Michael Firth, Kailong Wang and Sonia Wong, 'Corporate Transparency and the Impact of Investor Sentiment on Stock Prices', *Management Science* (vol. 61, 2015); and Robert Eccles and

Samuel DiPiazza, *Building Public Trust: The Future of Corporate Reporting* (New York: John Wiley, 2002).

[17] Corruption risks are increasingly evaluated as part of due diligence in mergers, acquisitions and investments. See Transparency International UK, *Anti-Bribery Due Diligence for Transactions: Guidance for Anti-Bribery Due Diligence in Mergers, Acquisitions and Investments* (London: Transparency International UK, 2012).

[18] Transparency International UK, *The 2010 UK Bribery Act Adequate Procedures: Guidance on Good Practice Procedures for Corporate Anti-Bribery Programmes* (London: Transparency International UK, 2010).

[19] KPMG Canada and Global Reporting Initiative, 'Spotlight on Corporate Transparency: Insights from GLOBE 2014' (Edmonton: KPMG Canada, 2014).

[20] PricewaterhouseCoopers, *Confronting Corruption: The Business Case for an Effective Anti-Corruption Programme* (London: PricewaterhouseCoopers, 2008).

[21] Ernst and Young, *Fraud and Corruption: Driving away Talent? Asia-Pacific Fraud Survey 2015* (Hong Kong: Ernst and Young, 2015).

[22] See www.transparency.org/news/feature/how_transparent_are_telecommunications_companies

[23] Transparency International, Transparency in Corporate Reporting: Assessing the World's Largest Companies (Berlin: Transparency International, 2014.

[24] For more information, please refer to http://integrity.transparency.bg/static_whitebook

[25] Preferred supplier status does not typically indicate exclusive or priority rights to business partners (for example, a company that will do business only with such partners.

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