THE BUSINESS CASE FOR FIGHTING CORRUPTION

QUERY
What is the business value to doing the right thing on corruption and anti-bribery programmes?

PURPOSE
To reach the business-minded, it would be helpful to have some hard figures.

CONTENT
1. The cost of corruption for companies
2. Deterrents
3. Incentives for acting with integrity
4. References

SUMMARY
Awareness about corporate integrity is growing as concern about the impact of corruption in the private sector spreads. Going beyond the moral argument, there are strong incentives for companies to embark on effective anti-corruption programmes as a way to mitigate the reputational, legal, operational and financial risks of corruption.

There is also a strong business case for fighting corruption. Taking into account the cost of bribery and sanctions for bribery, the potential impact of internal fraud and of reputational damages, corruption carries a high cost for businesses. In terms of potential gains, companies complying with anti-corruption regulations and engaging in the fight against corruption can reduce corruption related risks, avoid or reduce legal sanctions linked to a corruption case, obtain tax credits and benefit from financial and commercial gains. Anti-corruption is an important factor for companies in their business relationships and an increasingly important criterion for investors, young talent and consumers.

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Date
Submitted: 26 September 2012
Responded: 26 October 2012

1 We wish to thank Sebastian Wegner from the Anti-corruption Incentives and Sanctions for Businesses project (Humboldt-Viadrina School of Governance) for his contribution as external reviewer and for sharing data from the forthcoming “Motivating Business to Counter Corruption – Using Sanctions and Incentives to Change Business Behaviour”, (Humboldt-Viadrina School of Governance 2013).
The financial crisis has put the business sector’s opacity and lack of oversight in the spotlight and there is growing awareness of the costs of corruption for business. As a result, corporate integrity has become an important concern for companies, investors, consumers and private sector employees.

There is a strong business case for fighting corruption. Businesses that act with integrity and comply with anti-corruption regulations avoid the costs associated with corruption and even gain reputational, operational and financial benefits. However, as Alan Boeckmann states, “It is hard to measure the benefit you get from a good reputation, and sometimes it is hard to imagine the danger or the disaster that can befall you if you run afoul of that.”

1. THE COST OF CORRUPTION FOR COMPANIES

The cost of bribery to business

There are major methodological challenges involved in measuring the costs of corruption, including the costs to business.

The World Bank further estimates that bribery and corruption increase the cost of doing business globally by 10 per cent and adds about 25 per cent to the cost of procurement in emerging markets. Studies by the Center for International Private Enterprise and its partners estimate that businesses in Russia pay more than US$300 billion in bribes annually. They also highlight that bribery increases the cost of doing business by 40 per cent for a third of Iraqi businesses.

Bribery also seems to have an impact on firm growth. Using a dataset on bribe payment by Ugandan firms, Fisman and Svensson (2007) find that bribes are negatively correlated with corporate growth: a one percentage point increase in the bribery rate is associated with a three percentage point reduction in corporate growth. Looking further at the relationship between bribe payments, taxes and firm growth, the authors find that bribery has a much greater negative impact on growth than taxation.

Studies have long established that corruption imposes a high price on businesses, in terms of cost of capital, resource management, levels of investment, etc. In a 1997 study, Wei established the link between bribery and lower levels of investment, arguing that an increase in the corruption level from that of Singapore to that of Mexico equals a tax increase of over 20 per cent (Wei 1997). In 1999, Kaufman and Wei further examined the links between bribery, red tape and cost of capital. Findings revealed that, contrary to the prevailing theory that bribery can “grease” administrative procedures, firms that offer more bribes are likely to spend more of their management resources negotiating regulations with bureaucrats and face higher cost of capital (Kaufman, Wei 1999).

A Control Risks survey from 2007 reports that one-third of surveyed business people think that corruption increases the costs of international projects and about one in six respondents believe the cost increase can reach 50 per cent or more of the total costs.

Bribery is a vicious cycle in which companies can be trapped. A 2009 TRACE study demonstrate that bribe-takers tend to focus their demands on businesses that have paid bribes before. The level of requests for small bribes, for these companies, increased with the rate at which they were paid.

The cost of legal sanctions

Trends in anti-bribery laws

Both at the national and international levels, anti-bribery regulations are becoming increasingly comprehensive, putting more pressure on companies to adopt strong anti-corruption policies and mechanisms, and increasing the risk of a company being sanctioned.

The criminalisation of foreign bribery is among the most important trends in new regulations, with the majority of countries either criminalising foreign bribery (for example, Chile, China and Russia), or clarifying the scope of existing laws (such as Ireland, Israel and Spain). The issue of corporate liability also emerges as a trend, with a significant number of countries introducing criminal liability for legal entities (for example, Slovakia and Luxembourg), and one
country introducing (only) administrative liability for legal entities (Russia). Last but not least, several countries have adopted stronger penalties for bribery of both domestic and foreign public officials. Other changes include the criminalisation of commercial bribery (Russia and Ukraine), whistleblower protection (Ireland and Turkey), and the extension of the prescription period (Spain). 5

Enforcement of anti-bribery legislation and sanctions

Transparency International’s 2012 edition of the progress report on OECD Anti-Bribery Convention enforcement reveals that more bribery cases have been brought to justice compared to 2011. For companies, this indicates increased risks of prosecution when engaging in corrupt transactions. The financial risks companies face when convicted of bribery are also increasing, as reflected in current enforcement trends of the US Foreign Corrupt Practice Act (FCPA), with record-breaking fines and penalties imposed on FCPA violators.

In 2012, the OECD and the Stolen Asset Recovery Initiative (StAR) produced a study on the identification and quantification of the proceeds of active bribery to facilitate the confiscation and imposition of legal sanctions on companies as a deterrent to bribery. This report lists the various civil and criminal sanctions that exist worldwide: “confiscation of the proceeds of crime, disgorgement of illicit profits, levying of fines based on the value of the benefit, orders for compensation, contractual restitution or some combination of those remedies.”

Legal sanctions, in most cases, do not only affect the individuals who misbehaved. They also affect the company as a legal entity and, increasingly, executives who are responsible for preventing illegal activities from those placed under their supervision. In addition to the costs of the actual sanctions, companies must consider the expense of internal investigations, which can add millions of dollars to the costs incurred by the company (Henning 2011). A new trend is emerging by which stakeholders sue the company and its executives for damages related to bribery. 6

Country examples of sanctions

The US authorities have substantially increased prosecutions against corporations and individuals in the last years (US Department of Justice 2010), which intensifies the financial and reputational burden on companies. The United States is the best performing OECD country when it comes to prosecution of foreign bribery cases, with a total of 275 cases in 2011 (Transparency International 2012). In 2010, the most active enforcement year according to the Department of Justice (DOJ), total penalties resulting from FCPA enforcement actions reached US$1.7 billion. In its 2011 Performance and Accountability Report, the Securities and Exchange Commission (SEC) stated that the sanctions to be paid by companies for SEC settlements regarding foreign bribery equalled US$236.5 million. The Siemens case is the largest bribery case to date, with the company paying a fine of US$1.6 billion as a result of its acceptance of a plea bargain (in addition to the legal and administrative fees consequent to the prosecution). In 2009 Kellogg Brown & Root LLC agreed to pay US$579 million in fines and disgorgement; in recent years fines exceeding US$100 million were also incurred by Alcatel-Lucent and Technip, among others.

Germany engaged in 176 cases in total in 2011. Ferrostaal AG reportedly agreed to pay €149 million to settle a case involving two former executives who allegedly bribed public officials in Greece and Portugal to secure the sale of submarines.

The UK enacted its Anti-Bribery Law in 2010, which entered into force in July 2011, providing a stronger legal framework to combat bribery. It introduces the following offenses: active bribery, passive bribery, bribery of foreign officials and failure of companies to prevent bribery by an associated person. The UK has concluded 23 cases as of 2011 and 29 investigations were still underway in 2011. In 2011, Macmillan Publishers Limited was sanctioned to pay £11 million (US$17 million) in recognition of the unlawful conduct


5 This paragraph was taken from a previous TI Helpdesk query entitled “Trends in anti-bribery laws”, written by Maira Martini.
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of its East and West Africa division, in relation to a World Bank-funded tender to provide educational supplies in Southern Sudan.

2 DETERRENTS

In addition to the costs of bribery itself and of legal sanctions tied to corrupt acts, companies that engage in corruption expose themselves to certain risks that can affect their operations, results and reputation.

Debarment

According to a survey conducted in 2012 by the Humboldt-Viadrina School of Governance on anti-corruption incentives and sanctions, respondents from both public and private sectors list “restriction of business opportunities (debarment)” as the most important factor in motivating companies to fight corruption, followed closely by the “restriction of operations (revocation of business licenses, etc.)”. These results reflect the long term effect of operational sanctions and their importance to business people. In addition to the immediate loss of revenues, a company will also lose access to important markets or key actors for years, making re-entry more difficult (Humboldt Viadrina 2012).

As a result of a bribery case, a company can be suspended or excluded from public procurement processes for a certain period of time (debarment). Many governments, as well as international organisations such as the World Bank, the European Bank for Reconstruction and Development, the Asian Development Bank, the Inter-American Development bank and the African Development Bank Group, have adopted procurement “black lists.” Debarment from a multi-national development bank presents even greater risks for a company due to the 2010 “Agreement for Mutual Enforcement of Debarment Decisions”, which requires the institutions to notify each other of any debarment and makes it possible for a company to be debarred from contracting with any of the aforementioned development banks (Tillipman 2011).

The cost of debarment for businesses can only be estimated on a case-by-case basis since it is linked to the loss of potential markets during the debarment period. Some government or international bodies make their black lists public, for example the World Bank and the USA (Excluded Parties list system).

This introduces the possibility that losses due to reputational damage will be added to the losses incurred by exclusion from bidding processes. A growing number of private entities are now offering the service of providing a summary overview of debarment and enforcement lists world-wide. Thus companies do not need to invest significant resources in order to obtain relevant information on prospective business partners (www.worldcompliance.com, for example).

Debarment has been hailed as an efficient deterrent in the fight against corruption by many experts. A study on the FCPA and debarment conducted by George Washington University states that “the DOJ’s ability to work with a company to avoid suspension and debarment is significant leverage given the potentially devastating consequences that either could have on a company. Many companies would rather cooperate with the DOJ than suffer the consequences that might stem from an indictment or guilty verdict.” Considering this reality and referring to the millions of dollars paid to settle foreign bribery cases, one can only appreciate the potential losses a debarred company can face. Debarment has been qualified as a “virtual death sentence”, effectively “sound[ing] the death knell” for companies (Stevenson, Wagoner 2011).

Reputational risks

The most severe impact of corruption on a business would be to corporate reputation, say 55 per cent of the business people surveyed by PricewaterhouseCoopers in 2008. In parallel, the survey reports that, for 86 per cent of respondents, having an anti-corruption programme in place is valuable to a company’s brand.

Reputational damage is not only an embarrassment; it also has an impact on the company’s credibility and its success, since clients will refuse to do business with an organisation that may taint their own image. The 2012 Dow Jones State of Anti-Corruption Compliance Survey showed an increase since 2011 in the percentage of businesses that have stopped or delayed business activities with partners because of bribery concerns (60 per cent of respondents).

Corruption scandals can have an impact on a company’s share price, temporarily or long-term. For example, when the media reported on allegations of bribery at Wal-Mart, the company’s share price
dropped by approximately 5 per cent, wiping about US$10 billion off the value of the company (Egger 2012). Goldman Sachs estimates that “FCPA violations typically cast a three-year cloud over a company under investigation, and that the overall cost can reach 9 per cent of profits before interest, taxes, depreciation and amortisation over that period.” (The Economist 2012).

3 INCENTIVES FOR ACTING WITH INTEGRITY

Reduced legal sanctions

With the recent strengthening of anti-bribery laws, the increase of cases brought to justice and the severity of the sanctions, a trend is emerging by which companies may be offered settlement agreements or reduced fines if they come forward voluntarily and report a corruption case and/or if they cooperate with the authority during the investigation. Sanctions can also be softened if the company can justify that it has strong anti-corruption policies and mechanisms in place (see below). Companies are thus encouraged to promote anti-corruption and to comply with existing regulations. Examples of settlements and reduced legal sanctions abound:

Mexico

Mexico adopted its new federal Anti-Corruption in Public Contracts Law in June 2012, criminalising bribery and establishing liabilities and sanctions for companies and individuals that engage in bribery in the framework of public procurement. The Ley Federal Anticorrupción en Contrataciones Públicas provides the possibility of a fine reduction between 50 to 70 per cent (knowing that the fines can reach US$10 million) for offenders who self-report violations to the authorities and agree to comply with all investigation activities.

United States (the FCPA)

Businesses are increasingly making efforts to comply with anti-bribery legislations to avoid legal sanctions. The DOJ and SEC’s Cooperation Initiative provides incentives for companies and individuals, through a set of cooperation tools, to report violations before the authorities discover the bribery offense and, once the investigation is initiated, “...to fully and truthfully cooperate and assist with SEC investigations and enforcement actions...” The initiative also “…provides new tools to help investigators develop first-hand evidence to build the strongest possible cases.” The US authorities can negotiate with companies through a set of mechanisms such as cooperation agreements, deferred prosecution agreements and non-prosecution agreements (e.g., in cases of an existing anti-corruption compliance programme or its enhancement or establishment of new programme) to reduce charges and sanctions relating to FCPA enforcement actions.

The DOJ and SEC have agreed to a number of sanction-reductions and plea bargaining is a common practice. Thirteen corporate enforcement actions were brought by the SEC in 2011. Of these cases, eight were resolved through consent judgments (Aon, Armor Holdings, Comverse Technology, IBM, Johnson & Johnson, Magyar Telekom, Maxwell Technologies, and Tyson), four were resolved through administrative cease and desist orders (Ball Corporation, Diageo, Rockwell Automation, and Watts Water Technologies), and one was resolved through a deferred prosecution agreement (Tenaris) (Shearman & Sterling 2012).

Italy

The Italian Law 231, adopted in 2001, introduces corporate liability into the Italian legal framework. Law 231 states that companies must adopt specific anti-corruption mechanisms in order to prevent bribery in Italy and abroad. Having effective anti-corruption mechanisms in place can prevent the company from being sentenced. If the company can prove in court that it has done everything in its capacity, through anti-corruption and monitoring mechanisms, to avoid the occurrence of bribery and corruption, the employee alone will be held responsible and be prosecuted. Law 231 encourages companies to adopt strong and truthful mechanisms to avoid corruption (Legge 231 2012).

Companies’ organisational model and anti-corruption mechanisms are most often found to not comply sufficiently with Law 231. However, in a 2009 case, the Court of Milan cleared a company from sanctions relating to stock manipulation that had been

7 Note that this drop in share price was temporary.
committed by the President and CEO because the company had adopted an anti-bribery model complying with Law 231 (OECD 2011).

**United Kingdom (the UK Bribery Act)**

The Serious Fraud Office’s (SFO) *Guidance on Corporate Prosecutions* stipulates that a company’s self-reporting of acts of bribery and corruption can lead to a reduction of sanctions or put an end to prosecution through plea bargaining. For a self-report to be considered it must be part of a "genuinely proactive approach adopted by the corporate management team when the offending is brought to their notice." (Serious Fraud Office 2012).

The first plea-bargaining and sanction reduction case in the UK took place in 2009. Mabey and Johnson Limited was sentenced for allowing its agents to pay bribes to public officials in Ghana and Jamaica, and breaching the UN sanctions against Iraq. The company agreed to pay £6.6 million (US$10.8 million) in fines, confiscation, reparations, legal fees etc., under the plea bargaining agreement. The company’s sanctions were reduced in recognition of its cooperation with the SFO and for waiving privilege in its internal investigations. Mabey and Johnson Limited also agreed to submit its internal compliance programme to an independent monitor approved by SFO.

**World Bank**

The World Bank has also developed a similar approach. The Voluntary Disclosure Program (VDP) is used as a proactive tool to further prevent and combat corruption. Companies commit to (i) not engage in fraud and corruption in the future, (ii) share with the Bank the results of an internal investigation into past fraudulent, corrupt, collusive, or coercive acts and (iii) adopt a solid internal compliance program to be monitored by a compliance monitor approved by the World Bank. Through these commitments, companies reduce their risk of being investigated by the Integrity Vice-Presidency (INT), avoid the risk of being debarred, are allowed to remain anonymous and may continue to compete for World Bank contracts.

The factors that would reduce a company’s sanctions include the cessation of misconduct, internal actions against the responsible individual(s), development of an effective compliance programme, restitution or financial remedy, cooperation with the investigation, acceptance of guilt and voluntary restraint from participating in the World Bank’s bidding process (World Bank).

One notable case is the debarment of two subsidiaries of Oxford University Press, namely, Oxford University Press East Africa Limited (OUPEA) and Oxford University Press Tanzania Limited (OUPT) for improper payments to government officials in relation to World Bank projects. The debarment is part of a negotiation agreement in which Oxford University Press engaged in internal investigations and agreed to pay a USD$500,000 fine in exchange for a conditional non-debarment.

**Commercial and operational incentives**

The “triple bottom line” is a framework used to measure the sustainability and impact of a company based on the 3P dimensions: People, Planet, Profits. Anti-corruption and anti-bribery are included in the social sustainability, or “people” dimension. A 2007 Center for Creative Leadership survey reveals that increased market share and revenue, improved employee retention, increased community support and reduced risks are the main advantages of a triple bottom line approach, according to business executives.

A company’s reputation and history of corruption are an increasingly important element of choice for consumers, investors and peers. According to the previously-mentioned 2012 survey by the Humboldt-Viadrina School of Governance, 89 per cent of respondents from the private and public sectors consider that corruption has a high impact on business’ reputation.

**Investment**

Insurance companies, banks, private equity funds and other investors are more and more systematically considering the sustainability of companies in which they invest (Ernst & Young 2011). Experts from the private and public sectors believe that investors are the stakeholder whose behaviour might be the most affected by a business’ reputation with regards to corruption (Schöberlein, Biermann and Wegner 2012). In a joint publication,
the UN Global Compact, the International Chamber of Commerce, PACI and Transparency International report that, by engaging in the fight against corruption, companies attract investments from ethically oriented investors. In an issue paper from 2007, the Center for International Private Enterprise states that about 50 per cent of surveyed investment leaders systematically incorporate corporate citizenship in their decision-making criteria. This paper also refers to a growing number of economists who highlight the link between socially responsible companies and lower interest rates on loans.

Several global initiatives encourage responsible investments: The UN Principles for Responsible Investment (UNPRI) urge its signatories to include corporate governance in their investment analysis and decision-making process and many investors who are members of the UNPRI network, only invest in companies that comply with the relevant anti-corruption legal framework (UNPRI 2012). UNPRI also offers companies the opportunity to engage with investors through anti-corruption projects, among others.

Credit agencies such as Standard & Poor’s and Moody’s increasingly evaluate companies’ sustainability and several specialised ratings and rankings (for example, the Dow Jones Sustainability Index) have been developed to give stakeholders comprehensive information about a company’s ethical, environmental and social impact (Ernst & Young 2011). In 2001, FTSE International Limited (“FTSE”) and Ethical Research Services (EIRIS) created the FTSE4GOOD Index to measure the performance of companies that meet globally recognised corporate responsibility standards. A 2007 study by Curran and Moran reveals that a company’s inclusion in the index substantially increases its public profile and profitability and that a company’s exclusion negatively impacts both.

Markets

Engaging in the fight against corruption can help companies win new markets. Complying with anti-corruption standards and proactively enhancing integrity and accountability can grant companies a “preferred supplier status”, give them access to certain procurement processes open only to ethical companies and put them on “white lists”, among other benefits.

For example, the Integrity Initiative’s Integrity Pledges, implemented by the European Chamber of Commerce of the Philippines, are formal expressions of commitment by companies to comply with ethical business practices and to support the fight against corruption. These pledges give participating companies privileges such as “preferred supplier status” for private and government contracts, recognition as a “clean” or ethical company and perks from participating government agencies. Companies increasingly adopt policies requiring their suppliers to comply with ethical standards. JPMorgan Chase, for example, requires companies that want to become suppliers to comply with their anti-corruption policy that refers to the FCPA and the UK Bribery Act, among other provisions.

Procurement can be used as an incentive, as well as being used to sanction non-compliant companies. The use of a “white list” can reward compliant companies that act with high integrity through the visibility and publicity generated by their appearance on the list. The use of “white lists” is not common but Brazil’s Controladoria-Geral da União (Office of the Comptroller General) publishes a list of companies that have adopted strong integrity mechanisms and voluntarily underwent a compliance check, thus creating high standards for businesses in Brazil. To some extent, Transparency International research projects that target companies, such as Transparency in Reporting on Anti-Corruption (TRAC) or Promoting Revenue Transparency (PRT), are of similar utility, identifying non-compliant companies with opaque structures and while recognising well-performing ones.

Performance

There is an increasing interest in demonstrating the link between ethical business practices and improved financial performance. A research project conducted by the Australian Graduate School of Management finds that corporate integrity in the form of social responsibility, among other things, is likely to pay off and improve a company’s financial performance. Several studies from Business in the Community (BITC) demonstrate that business executives affirm
that good corporate citizenship helps them reduce their costs and increase their net earnings. A World Economic Forum report from 2008 shows that, between 2000 and 2005, companies in the Dow Jones Groups Sustainability Index (DJGSI) performed an average of 36.1 per cent better than the traditional Dow Jones Group Index. Finally, the Dow Jones Sustainability Index (DJSI) 2008 report, points to a “positive strategically significant correlation between corporate sustainability and financial performance.” (Strandberg, 2009).

Another study explores firms’ performance in relation to bribery. Looking at a sample of 166 bribery cases of publicly listed firms from 20 stock markets and comparing them with competitors that have not been involved in bribery incidents, Cheung et al. investigate which firms benefit from corruption and what benefits they receive from the bribes that they pay. Results indicate that companies that bribe to win contracts tend to underperform compared to their peers for up to three years before and after winning the contract for which the bribe was paid. They also tend to have significantly lower return on assets (asset turnover, operating and net profit margin) (Cheung et al. 2011). The authors also conclude that firms that bribe are fixated by sales growth, not on maximizing shareholder value and are less efficient in converting inputs into results.

In Clean Business is Good Business, the UN Global Compact et al. affirm that companies that engage in the fight against corruption “obtain a competitive advantage of becoming the preferred choice of ethically concerned costumers.” Many studies also show that socially responsible businesses experience better customer loyalty.

**Consumers**

Transparency International’s Global Corruption Barometer 2009 shows that corruption matters to consumers: half of the respondents stated that they were willing to pay a premium to buy from a corruption-free company. The Center for International Private Enterprise states that in markets where consumers have very little information on a company’s product, they tend to rely on a trustworthy corporate image and history of ethical practices. A study by Environics International revealed that 27 per cent of the surveyed consumers had already stopped buying goods or services from companies known to have engaged in unethical behaviour (as cited by the Center for International Private Enterprise). Similarly a Taylor Nelson Sofres survey affirms that 68 per cent of Australian consumers have “punished” companies for their unethical practices (as cited by the Center for International Private Enterprise). In 2004, the Center for International Private Enterprise noted that while this trend was mostly observed in developed countries, the practice was expanding to emerging countries.

**Tax credits**

In the framework of broader corporate social responsibility commitments, adhering to anti-corruption principles can lead to fiscal advantages. 37.5 per cent of the individuals surveyed by the Humboldt-Viadrina School of Governance specified that fiscal incentives could be an efficient mechanism to get companies to comply with anti-corruption regulations.

For example, the city of Philadelphia (US) adopted a proposal to offer tax incentives for companies as “B Corporations” by the civil society organization B Lab. To be granted a tax credit, businesses must comply with certain social and environmental standards, including a number of anti-corruption, accountability and transparency elements:

- The company must maintain certain financial control measures.
- The company must have a whistle-blower protection policy.
- Senior officers and board members must fill out a conflict of interest questionnaire.
- The company must have an audited annual financial report and a published activity report.
- The company should not attempt to reduce taxes through shell companies.
- The company should have a complaints mechanism, etc.

The tax credit offered to companies deemed compliant with the “B corporation standards” can be as much as US$4,000.

**Retaining and attracting valuable human resources**

Socially responsible practices can help businesses...
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attract and retain high-quality, principled employees and improve staff morale.

There is increasing evidence that corporate social responsibility practices have a significant impact in motivating, developing and retaining staff. A 2007 study by the Society for Human Resource Management shows that corporate citizenship practices are seen as important to employee morale (64 per cent in US, 68 per cent in Brazil), loyalty (48 per cent in the US, 59 per cent in Brazil), retention (24 per cent in the US, 23 per cent in Brazil), recruitment of top employees (19 per cent in the US, 25 per cent in Brazil) and productivity (15 per cent in the US, 26 per cent in Brazil). A study produced for Industry Canada in 2009 demonstrates that adopting socially and ethically responsible practices reduces staff turnover. It refers to Novo Nordisk, whose employee turnover dropped by 5 per cent after the launch of the company’s “Values in Action” campaign, and Sears, whose staff turnover reduced by 20 per cent after it implemented its corporate social responsibility programme.

The UN Global Compact says that if corruption and/or tolerance for corruption is widespread, it will rapidly be known internally and externally. Unethical behaviour damages staff loyalty to the company and makes it difficult for employees to see why they should comply with the high standards set internally when these do not apply in external relations. PricewaterhouseCoopers state that “failing to prevent corruption allows employees and third parties to rationalise stealing from the company. Companies …that enable bribe payment are also highly susceptible to theft and financial statement manipulation.” Many studies state that fraud is corrosive. Staff members who see their superiors or colleagues getting away with corrupt practices will feel they can pursue their own (Pact 2005).

In a 2012 report looking at 1,388 cases of occupational fraud, the Association of Certified Fraud Examiners affirms that, on average, companies lose 5 per cent of their revenue due to internal/occupational fraud, which could be costing them about US$3.5 billion annually. The study demonstrated that companies with strong anti-corruption mechanisms as well as a solid internal ethical culture are less vulnerable to internal fraud and theft.

Conclusion

The business case for fighting corruption in the private sector is strong. Both the public sector and businesses themselves realise the importance of tackling the supply-side of corruption and an increasing number of stakeholders consider the integrity factor when engaging in a commercial deal.

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