



## INTERNATIONAL BUSINESS ATTITUDES TO CORRUPTION

SURVEY 2014/2015



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# INTRODUCTION

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## INTERNATIONAL ENFORCEMENT: FEWER PLACES TO HIDE

Three powerful drivers are – or should be – sharpening international corporate attitudes to corruption.

**Firstly, the US is consistently tough on foreign bribery.** The world's largest economy is as diligent as ever in enforcing the US Foreign Corrupt Practices Act (FCPA). Both in theory and in practice, the US claims jurisdiction over international companies listed in the US, or routing any part of their corrupt transactions via US banks or communication systems. In one case in 2014, the Japanese company Marubeni was fined \$88m in connection with bribes paid in Indonesia; and the former vice-president of the US subsidiary of French engineering company Alstom pleaded guilty to FCPA charges in connection with the same case.

**Secondly, other industrialised economies are tightening enforcement.** Other OECD countries are following the US lead – albeit unevenly. In early 2014, Norway concluded its largest-ever international anti-corruption enforcement case, resulting in the imposition of a \$48.3m fine on Yara International; in May, Canada imposed a three-year prison sentence on the first individual to be convicted under the country's Corruption of Foreign Public Officials Act; and in July, the UK's Serious Fraud Office (SFO) charged the British subsidiary of the French company Alstom with six corruption and conspiracy offences relating to contracts in India, Poland and Tunisia.

**And finally, emerging markets are joining in.** This is perhaps the most significant driver to emerge in 2014. Recent developments in China – notably the prosecution of the UK-based pharmaceutical company GSK – make clear that anti-corruption enforcement is far from being a Western monopoly. Meanwhile, Brazil has introduced a much tougher anti-corruption regime via its Clean Companies Act, and in August 2014, in one of the country's first foreign corruption cases, the Brazilian authorities filed a criminal complaint against eight employees of the aircraft company Embraer. The complaint alleges that the company paid to secure aircraft sales in the Dominican Republic. Meanwhile, step by step – and often excruciatingly slowly – India too is gradually strengthening its anti-corruption institutions, notably through the Companies Act which came into force in April 2014.

These drivers mean that now – more than ever – companies need to be prepared to be called to account for the effectiveness of their anti-corruption programmes. The requirement for accountability applies first and most obviously in their relationships with national and international regulators but secondly – and in the long run just as importantly – in their dealings with customers, shareholders and political stakeholders. No international company can expect to retain its social license to operate, or the confidence of its financial backers, if it fails to address bribery risks.

Against this background, Control Risks commissioned an international survey of 638 companies operating across the world. The key questions were: are these companies ready for the challenges that they face in today's compliance environment? Are they prepared to be called to account?

## THE SURVEY

The survey was conducted in June and July 2014. 638 respondents were surveyed, of which over half (56%) were Chief Legal Officers, General Counsels, or executive level in-house counsel. 9.5% were lawyers from private practice and the remainder included: Directors/Heads of Compliance, Heads of Risk, Heads of Audit and Company Secretaries. The respondents represented a range of business sectors, including professional services (23%); financial services (15%); manufacturing (14%); oil, gas and mining (12%); IT and technology (11%); construction and real estate (7%); and telecoms (6%).

Europe was the best-represented region, with 31.5% of respondents working for organisations headquartered there, followed by Asia/Pacific (23.5%), North America (21.3%), Latin America (14.1%), the Middle East (6.9%) and Africa (4.4%). The best-represented individual countries were the US (107 companies with US headquarters) and the UK (96 companies with UK headquarters). The respondents also included significant numbers from the emerging economies of China (51), Brazil (46), Mexico (44) and India (29).



*The findings point to a disconnect between what head offices believe about the adequacy and effectiveness of their anti-corruption programme and what actually happens in the higher risk markets – this is the ‘remote office’ problem.*

## KEY FINDINGS

### Paper compliance is not enough

The warning signs are there; the legal cases are there; major investigations are in progress, and not just in the US and the UK, but around the world. Yet the survey findings still point to a disconnect between companies' experience, their observations of the world around them, and what they expect to happen to them.

The responses highlight something that we at Control Risks have seen more and more in our dealings with international companies. Typically, companies fall very clearly into two camps: those who mean it, and those who don't.

It is fine to have a glossy compliance programme, with all the policies, procedures and contracts in place. However, these often represent no more than a check-the-box approach to compliance. Those who really mean it usually have additional measures in place: there is board level leadership and responsibility (“tone from the top”); there are strong and consistent messages communicated to staff; and there are penalties for breaches. Most importantly of all, there is an appreciation that the benefits of a robust and meaningful anti-corruption programme go beyond simple legal compliance.

Companies whose ethical values permeate the decision-making process, and filter through to the way employees and business partners perceive the company, are more likely to stay the course. In Control Risks' experience, these companies also develop more astute emerging market investment strategies as they take the time to consider how the nature and prevalence of corruption in their sector may impact their long-term interests.

### ‘It won't happen to us’

This long-term view requires constant, short-term vigilance. Looking at the survey results, we found little evidence of this, with companies tending towards a reactive approach rather than a proactive one.

The findings point to a disconnect between what head offices believe about the adequacy and effectiveness of their anti-corruption programme and what actually happens in the higher risk markets – this is the ‘remote office’ problem. Sometimes this is genuine ignorance; sometimes it is a form of wilful blindness. Neither is a credible explanation in the eyes of the regulators.

When asked whether they expected to conduct an anti-corruption investigation of an employee in the next two years, more than two thirds thought that this was “very unlikely” (44.2% of the total), or “somewhat unlikely” (23.4%). Only 8.2% thought an employee investigation was “almost certain” in the two-year time frame.

This was in spite of the fact that – as revealed by a follow-up question – more than half of our respondents (56.6%) had in fact conducted an internal anti-corruption investigation in the past two years. Typically, these were triggered by reports from internal whistleblowers (32.6%), findings from audits (32.4%) and reports from external whistleblowers (16.5%).

Compliance specialists need to be constantly probing – and following up on – apparent anomalies in their companies' programmes. An internal enquiry should not be seen as an exceptional event, but rather as evidence of the active engagement needed to forestall an aggressive demand from a government regulator.



The difficulty of ensuring anti-bribery initiatives are robust enough to combat unethical behaviour in emerging markets is typified by GSK. GSK has a sophisticated compliance programme which actively promotes ethical behaviour and corporate responsibility, and due diligence initiatives to ensure compliance with anti-corruption regulations around the world. Despite this, GSK's subsidiary in China was fined £297m by the authorities for the offence of offering money or property to non-government personnel in order to obtain improper commercial gains, and was found guilty of bribing non-government personnel. Having a robust compliance is one thing: making it meaningful in all markets in which you operate is another.

### Failure to follow through

A similar disconnect applies to respondents' policies and procedures. The great majority (87.9%) now have company policies explicitly forbidding bribes to secure contracts. However, they are still weak on essential follow-up measures. For example, only just over half of the respondents (50.2%) reported that their companies had anti-bribery and anti-corruption training programmes for all employees; and less than a third (30.9%) had training programmes for selected groups of employees, e.g. those operating in high-risk functions such as sales.

These days many companies are good at talking about principles. Not all of them are able to demonstrate that they put principles into practice.

### SO WHAT DO COMPANIES NEED, AND WHAT DO THEY LACK?

The two questions go together. The Control Risks survey points to evidence of good practice, but also to a high degree of inconsistency in the extent to which it is applied across countries and sectors. Successful compliance requires three key qualities:

#### Invest in leadership

As ever, strong leadership is crucial. Yet, less than half (47.5%) of companies represented in our survey have board directors, or board-level compliance committees, with specific responsibility for anti-corruption.

Leadership includes providing compliance teams with the support that they need. On a positive note, 37.9% of our global sample reported that their companies were investing additional resources in mitigating anti-bribery and anti-corruption risks. However, a significant proportion – 17.4% – reported that they needed to increase their compliance budgets, but faced budgetary constraints.

Of the UK-headquartered companies, 45% of respondents reported that their companies are increasing spending on anti-corruption compliance, as are 54% of Brazilian companies. In the UK's case, this may reflect the continuing influence of the UK Bribery Act, which came into force in 2011. The relatively high Brazilian investment in compliance no doubt points to the impact of the Clean Companies Act which came into force in early 2014. By contrast, only 17% of Indian companies are increasing investment in compliance.





*Well-drafted contracts are essential but not sufficient. The great majority of major enforcement cases involve third parties. When called to account, companies need to be able to present a clear business case for their relationships with sub-contractors and other business partners.*

### Consistency, consistency, consistency

The second key requirement is consistency, both in messaging and in action. Having an anti-corruption policy is not sufficient in itself. Indeed, regulators may take failure to implement a policy that exists on paper as evidence of cynical disregard for the law.

Effective two-way communication is essential. In addition to – or as part of – their training programmes, companies need to ensure that employees have a variety of channels by which they can raise concerns or seek advice. The lure of bounty (as a result of the US Dodd-Frank Act), a perceived increase in protection and the ease with which social media can be wielded as a weapon, have all contributed to the empowering of whistleblowers.

Yet only 56% of our respondent companies had whistleblowing lines. Without a defined channel via which to voice their concerns, without an understanding of what protection they would be afforded, and without a belief that the company will be consistent in its intolerance of corrupt activity, employees at the remaining 44% of companies may be tempted to take their grievances outside to the regulators or to the media rather than first raising their concerns internally.

On a similar note, 64% of respondents included standard ‘no bribe’ clauses in their contracts with sub-contractors, agents and other business partners. However, a rather smaller proportion – 58.3% – conducted integrity due diligence on potential new business partners, which in our view, is surprisingly low. Well-drafted contracts are essential but not sufficient. The great majority of major enforcement cases involve third parties. When called to account, companies need to be able to present a clear business case for their relationships with sub-contractors and other business partners, and they need to be able to demonstrate that they have assessed the potential integrity risks thoroughly and consistently.

### Get ready to resist

The third requirement is a willingness to resist bribery, even in – or especially in – high-risk environments.

When asked what they would do if they lost business to a corrupt competitor, our respondents were strikingly robust in their views: 39.3% said they would try to gather evidence with a view to taking legal action; and almost as many (37.8%) said they would report the incident to the police or the regulatory authorities. This robustness is encouraging in that it points to increased confidence in anti-corruption legal regimes, although in Control Risks’ experience it is still rare for such protests to lead to reversals of contract awards once they have been made.

On a more mundane, day-to-day level 16.2% “agree” or “strongly agree” with the statement that so-called facilitation payments – small payments to speed up legitimate government transactions – are “essential to keep their business going”. Respondents in India (27.5%) were most likely to take this view, closely followed by their counterparts in Mexico (25.5%) and China (24.6%).

As with all aspects of anti-corruption, resistance to demands for facilitation payments requires leadership and consistency. Resistance to demands is tough but entirely feasible. It requires skill, determination – and vision.

# INVESTIGATIONS: HOLDING – AND BEING HELD – TO ACCOUNT

Internal and external accountability are at the heart of the anti-corruption agenda, and this in turn implies both a willingness and an ability to follow up on any evidence of malpractice.

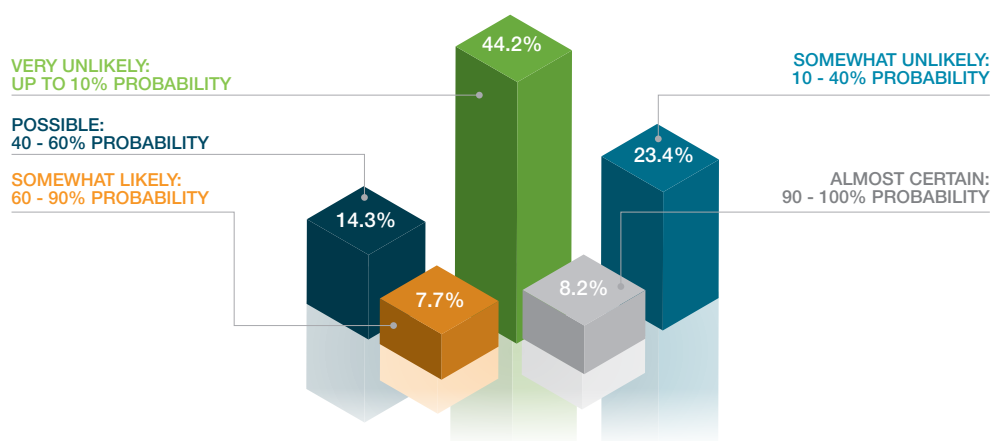
With this in mind, we asked respondents whether they expect to conduct an investigation concerning suspected violations of anti-bribery laws in the next two years. The findings suggest that the respondents are less prepared – and less proactive – than they should be.

## EMPLOYEES UNDER SCRUTINY?

Overall, more than two thirds (67.6%) of respondents think that it is “somewhat unlikely” or “very unlikely” that they will need to conduct an anti-bribery investigation concerning an employee in the next two years.

At first sight this looks like a hopeful assessment, but we question whether it is realistic. First, in today’s compliance climate, companies need to reckon with the possibility of enquiries from external regulators – and the consequent investigations – at any time. Secondly, compliance teams need to take the initiative, constantly probing for potential problems, and then following up with whatever investigations are required. In the field of anti-corruption, the saying that ‘no news is good news’ doesn’t necessarily apply.

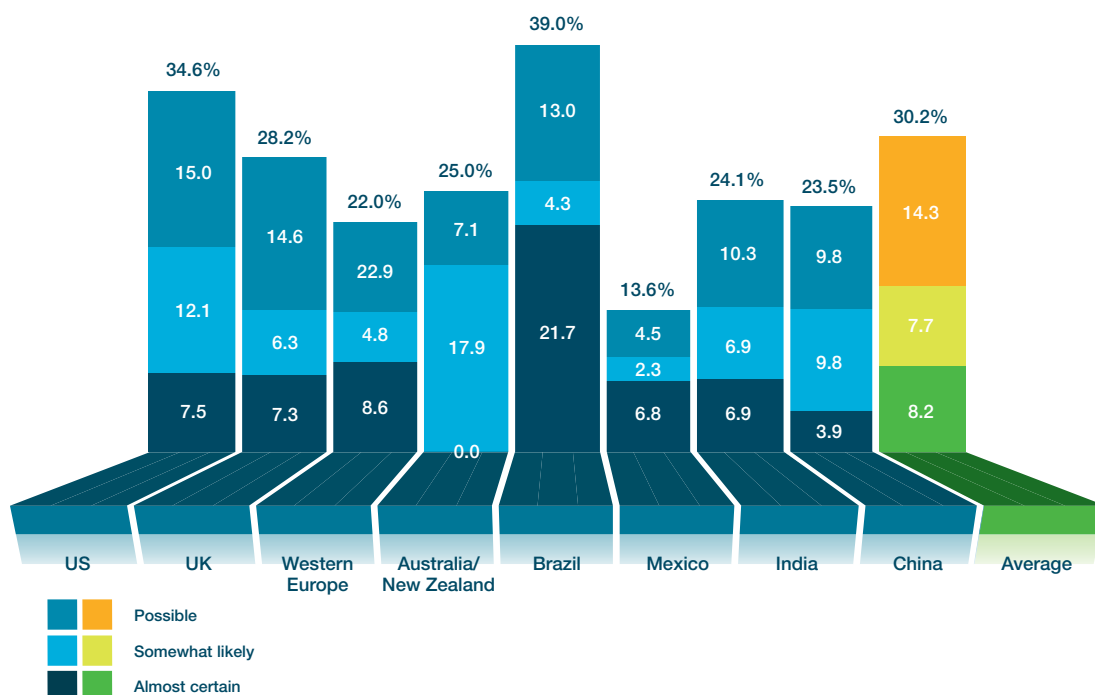
### Likelihood of conducting an anti-bribery investigation of employee in the next two years



A geographical breakdown shows that Brazil-based companies are the most likely to investigate an employee: 25% think that this is “somewhat” or “very likely” to happen, and this is no doubt a response to the tighter compliance environment in the wake of Brazil’s Clean Company Act, which came into force in early 2014. The new legislation is already having an impact. The US came next with 19.6% of respondents taking a similar view – a reflection of tight FCPA enforcement. By contrast, only 9.2% of Mexican companies think it likely that they will need to investigate an employee: in Mexico’s current compliance environment, this looks all too credible.



**Likelihood of conducting an anti-bribery investigation of employee.  
By company headquarters**



### AND WHAT ABOUT THIRD PARTIES?

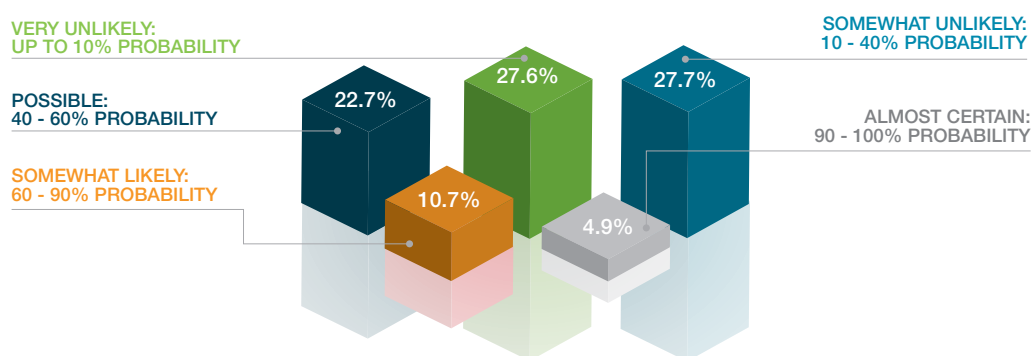
We asked a similar question about investigations of third parties, an important point because the overwhelming majority of high-profile corruption cases involve bribes paid via intermediaries such as commercial agents or consultants. The figures were similar. More than half of the respondents thought that an investigation of a third party was either “very unlikely” (27.6%) or “somewhat unlikely”.

Again, this response suggests a need to be more proactive. It has long since ceased to be acceptable “to turn a blind eye” to the activities of intermediaries. However, many companies still use established agents and consultants who were recruited at a time when compliance standards were less strict. In Control Risks’ experience, companies are often too readily satisfied with simple measures such as token questionnaires to would-be third parties that are never checked.

Even worse, we still encounter executives who believe that the use of intermediaries provides a ‘screen’ that will protect their own companies from charges of corruption. In the case of the FCPA, there is more than 30 years of legal precedent to demonstrate that this is not the case. Like the FCPA, the UK Bribery Act and similar laws from other countries explicitly cover bribes paid by intermediaries as well as direct bribes.

Compliance teams need to be constantly questioning: what do these people actually do? Can we demonstrate that they are providing a legitimate service for an appropriate fee? If not, why exactly does the company employ them? These questions should be asked of all third-party relationships, on grounds of commercial efficiency as well as compliance. At the same time, compliance teams need to adopt a risk-based approach – focussing on the nature of the third party's services and reward structure as well as their jurisdiction – in order to ensure that they concentrate on the areas where their company is most exposed.

#### Likelihood of conducting an anti-bribery investigation of a third party in the next two years



#### HEWLETT PACKARD: FAILURES OF THIRD PARTY CONTROLS IN RUSSIA, POLAND AND MEXICO

In April 2014 the US-based computer and software company Hewlett Packard (HP) agreed to pay more than \$108m to settle FCPA charges brought by the US Department of Justice (DoJ) and the Securities and Exchange Commission (SEC). The case involved bribes paid via third parties in Russia, Poland and Mexico.

The SEC's cease-and-desist order highlights the US parent company's failure to impose effective controls on agents and sub-contractors. In Russia, a German agent acting on behalf of Hewlett Packard channelled payments to shell companies associated with government officials that performed no services. In Poland Hewlett Packard employees and agents gave a government official more than \$600,000 in cash, gifts and travel benefits. In Mexico, the company sales team agreed to pay a 25% "influence fee" to a consultant with connections to government officials. The SEC order shows that Hewlett Packard had third-party controls, but they were inadequate or were circumvented.

## INTERNAL INVESTIGATIONS: THE RISE OF THE WHISTLEBLOWER

We asked respondents whether they had conducted an internal investigation concerning suspected corruption or fraud in the past two years. If so, what had triggered it?

More than two fifths (43.4%) said that they had not conducted an investigation at all – suggesting that the balance, the 66.6% who had conducted an investigation, were over-optimistic in their response to the previous question. Despite their previous experience, they evidently expect neither a report from an internal whistleblower nor an enquiry from a regulator.

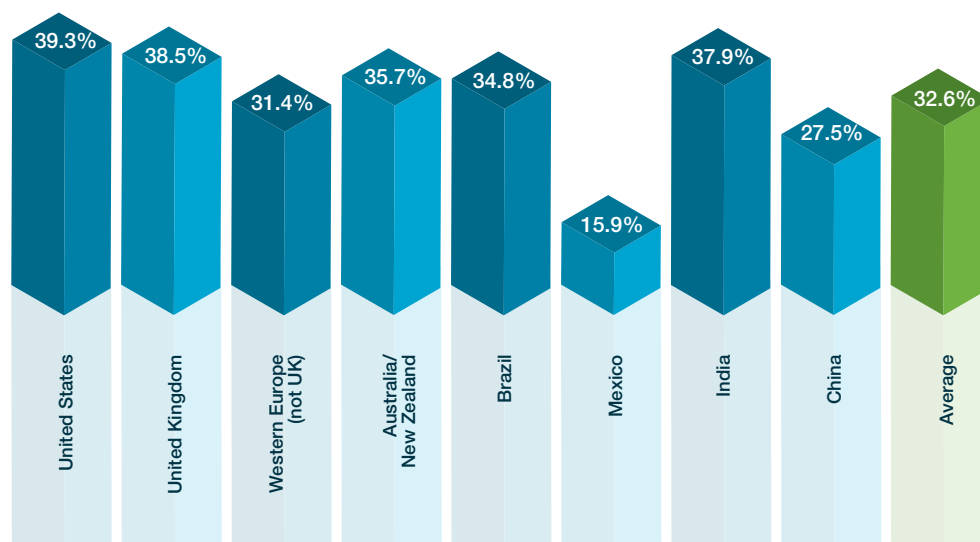
### Triggers for internal anti-corruption investigations in the past two years



### Internal whistleblowers

If compliance teams first hear about corruption allegations from the press or – worse still – from a regulator, they have much less freedom for manoeuvre. The risks are all the greater in the light of the US Dodd-Frank law which offers a bounty to whistleblowers whose reports lead to successful enforcement action, including in FCPA cases. In September 2014 the SEC granted an award of \$30m to one such whistleblower. The agency did not report the details but noted that the informant lived outside the US.

Companies that have conducted an investigation in response to a report by an internal whistleblower in the last two years. By company headquarters



Against this background, the relatively large number of respondents (32.6%) who have conducted investigations in response to reports from internal whistleblowers is in some respects reassuring. Companies need to encourage internal communication. If employees identify problems, they should be encouraged to report them, whether via a formal whistleblowing line or by some other channel. In these cases the system appears to be working. But, equally, we all too often come across cases where companies have ignored early warning signs from whistleblowers only to face much greater problems when they came under external investigation.

Whistleblowing lines are more widely accepted in the US and the UK than in many other jurisdictions, and it is therefore to be expected that whistleblower complaints should be more common there.

By contrast, in some European countries companies wishing to introduce whistleblower lines will need to negotiate significant cultural and legal obstacles, and this may account for the relatively low level of responses from this region. In some countries, the practice of making confidential reports of suspected malpractice still evokes troubled memories of secret police denunciations in earlier political eras.

In India internal complaints – often in the form of anonymous letters – are common. Experience suggests that they are also more likely to be ‘nuisance complaints’, but every such report needs to be assessed on its merits. In China too, internal whistleblower complaints are becoming more common and, against a background of closer scrutiny from both domestic and international regulators, it is crucially important that companies follow up on any warning signs from this source.

The infrequency of internal reports in Mexico is scarcely a reflection of low levels of corruption: it is more likely to indicate a lack of trust in management or, worse still, a fear of reprisals.

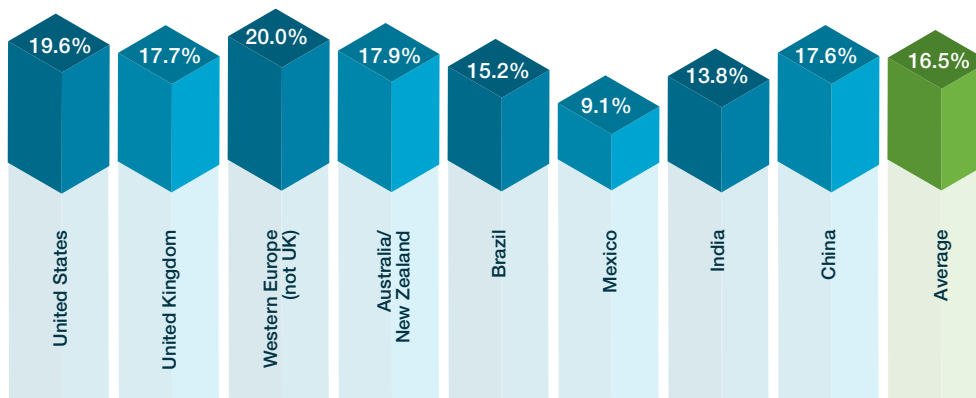


*External complaints are less frequent than internal ones in all jurisdictions, but still a frequent trigger for investigations. In all cases, companies need to demonstrate a willingness to respond quickly and effectively: failure to do so increases the risk that the external informant will seek other means of publicising their complaint.*

### External whistleblowers: revenge is sweet?

The dynamics in the case of external whistleblowers are rather different. In Control Risks' experience of working with clients, there are many variations on this theme. Examples may include rival companies who suspect malpractice on a competitive bid, or tip-offs from concerned citizens. In other cases, it may be motivated by a desire for revenge by a former employee, or even a former spouse.

Companies that have conducted an investigation as a result of a requirement from an external whistleblower in the last two years. By company headquarters



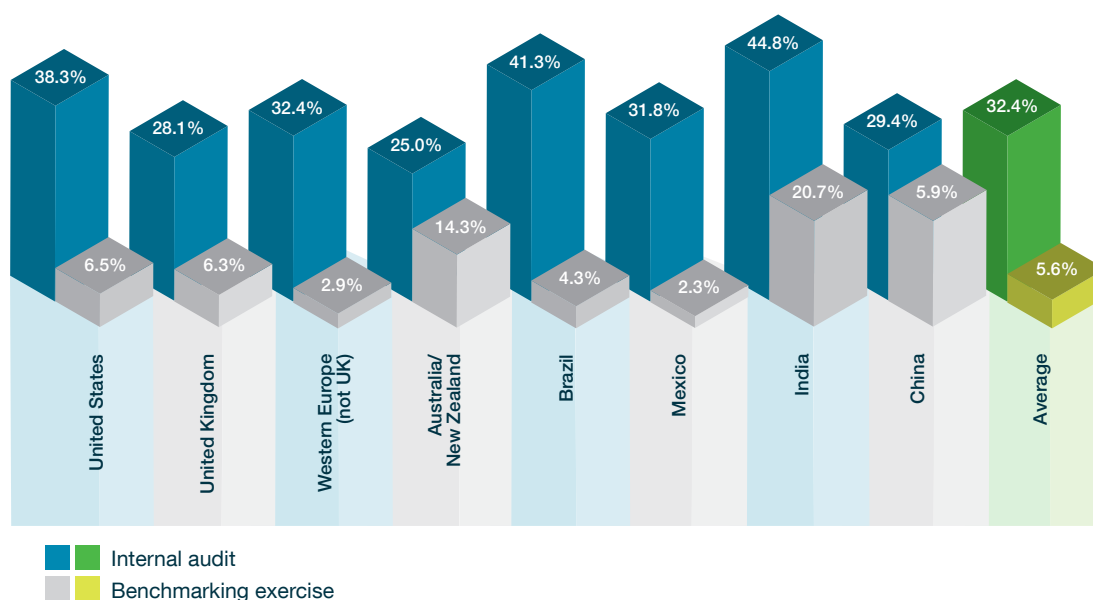
Our survey findings show that external complaints are less frequent than internal ones in all jurisdictions, but still a frequent trigger for investigations. In all cases, companies need to demonstrate a willingness to respond quickly and effectively: failure to do so increases the risk that the external informant will seek other means of publicising their complaint, for example going to the press – or denouncing the company to a regulator. Revenge may be all the sweeter if carried out by an external regulator.

### AUDITS AND BENCHMARKING EXERCISES

Audits and benchmarking exercises are examples of proactive anti-corruption initiatives on the part of the company. Anti-corruption compliance is an intrinsic part of good management, not a separate category, and internal management or accounting reviews may well point to structural flaws that increase the risk of bribe payments. Benchmarking to assess whether the company is paying for the fair market value of services or products is an important anti-corruption tool. Anomalies could point to inefficiencies – or they could indicate that an employee is taking kickbacks, and the service provider is passing on the costs to the company.

A geographical analysis of the findings points to high levels of activity in the US and this again reflects the tighter enforcement environment. Brazil and India also stand out. Both countries are relatively high-risk and it would appear from the findings that company managers in these countries are responding by imposing tighter audit controls.

Companies that have conducted an investigation as a result of an internal audit or benchmarking exercise



### Responding to the regulator

In the US and the UK particularly, regulators are becoming more proactive in challenging companies to demonstrate that they have effective internal controls, as well as pursuing specific violations. In both cases, companies need to demonstrate a willingness to respond quickly and effectively.

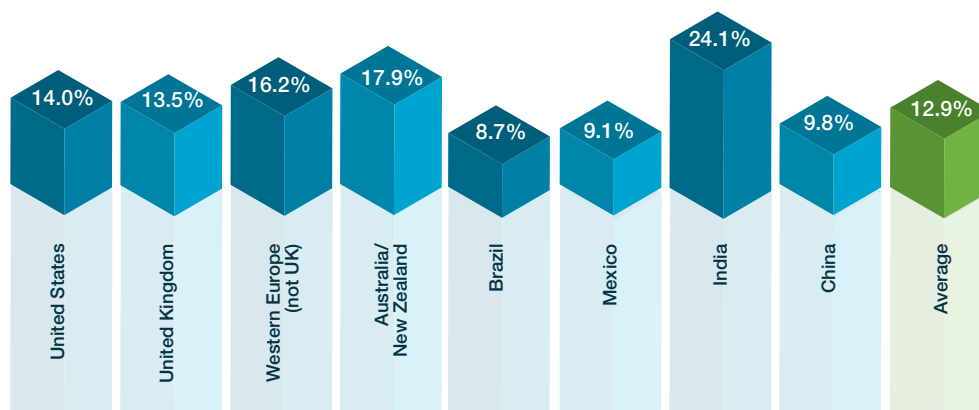
The unusually high response from those in India may be attributed to the Companies Act 2013 which encourages corporate self-reporting and disclosures. The scope of the controls to be included in directors' reports now includes policies and procedures to ensure the orderly and efficient conduct of business, and not just financial performance. The Act gives executives the primary responsibility for detecting and preventing internal fraud, thus making Indian companies more proactive and conscientious than before.



How a benchmarking exercise can uncover corrupt practices was evident in a recent investigation undertaken by Control Risks on behalf of a fashion company. This company was sourcing its products from East Asia. On behalf of his employers, their local buyer was paying higher prices than the company's competitors. When we conducted an investigative review on the client's behalf, we found out the reason. It turned out that he was taking kickbacks from suppliers, and passing on the costs to his employer.



Companies that have conducted an investigation as a result of a requirement from a regulator in the last two years. By company headquarters



#### TECHNICAL CHALLENGES OF CROSS-BORDER INVESTIGATIONS

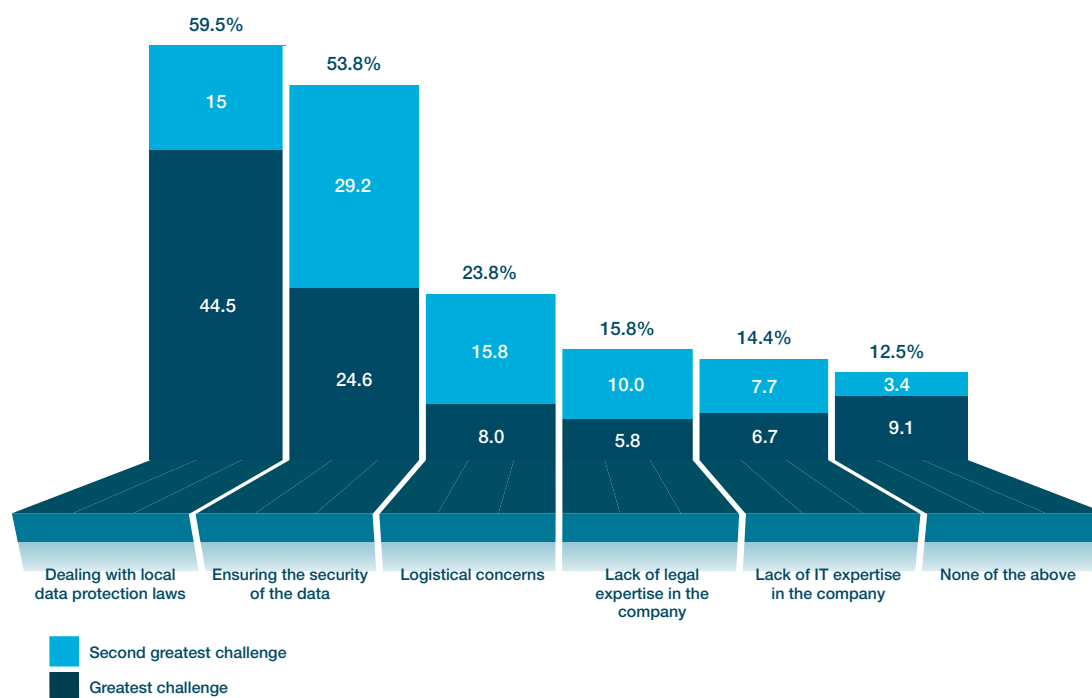
The international nature of contemporary business means that anti-corruption investigations of any size are almost bound to involve more than one jurisdiction. When asked to identify the greatest challenges in such enquiries, 69.5% pointed to “dealing with local protection laws”.

This rings true to Control Risks’ experience. The challenge of navigating local data privacy laws adds a further layer of complexity to international corruption investigations. China is a particular case in point because what might be considered open economic information in other countries is often regarded as a ‘state secret’ in this country. Even being in possession of such data can be incriminating, and transferring it out of the country – even to Hong Kong or Macau – can bring massive fines or worse. However, it’s not just China. US laws on data privacy are much less strict than those prevailing in Western Europe. US investigators can easily fall foul of European privacy regulations if they fail to take expert advice.



A large multinational in the media sector recognised the need to introduce a third party due diligence programme in order to ensure compliance with the “adequate procedures” required by the UK Bribery Act of 2010. Faced with over 2,000 agents and distributors in China alone, this was a daunting task so the company decided that the completion and submission of self-disclosure forms would suffice as “due diligence”. Questions included: “Have you ever paid a bribe to secure business?” and “Are any of your shareholders or directors public officials.” Unsurprisingly, nobody answered yes. Three years on, they have been the subject of a corruption probe in China relating to the activities of one of their agents.

### Challenges of cross-border investigations: two greatest challenges



Respondents identified “ensuring the security of the data” as their second major concern. During an investigation, it is essential to secure electronic information sources without raising the suspicions of the targets while at the same time making a copy to ensure its integrity as an untainted source of evidence. The principle is clear: putting it into practice requires more than the usual skills of in-house legal and IT teams.

Against this background, it is scarcely surprising that more than two thirds of respondents thought that “the time companies spend on adhering to global data protection laws” would increase “significantly” (39%) or “a lot” (39%) in the next two years. On a similar note, there was a clear view that the requirement to move data across country borders as a result of a corruption-related investigation would increase. However, 28.7% thought that the challenges of doing so would increase “significantly”, while 40.8% thought that they would increase “a little”.



# INTERNAL COMPLIANCE: BUILDING THE COMPANY'S DEFENCES

If companies come under regulatory scrutiny, they are best placed to defend themselves if they can point to well-designed compliance programmes. Our survey shows that anti-corruption is firmly placed on the international corporate agenda, but it also points to significant gaps.

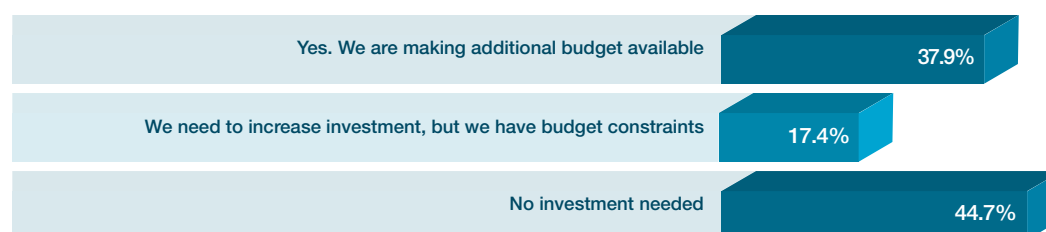
## ARE COMPANIES SPENDING ON ANTI-CORRUPTION COMPLIANCE?

Financial commitments to compliance are an important indicator. A majority – 55% – want to increase investment, but 17.4% of the total sample are unable to do so because they face budgetary constraints. By contrast, 44.7% of respondents are satisfied with their existing programmes, and argue that no further investment is needed.

This analysis raises the question ‘how much is enough?’ Clearly, companies need to make pragmatic spending decisions, balancing a range of competing demands from different parts of their businesses. Nevertheless, Control Risks’ experience is that all too many companies still regard anti-corruption compliance simply as a cost rather than a source of competitive advantage. This attitude can all too easily lead to false economies.

A regional analysis of the companies increasing investment points to a number of contrasts. Among the Western respondents, UK companies are the most likely to be spending more on compliance, perhaps because of the continuing impact of the Bribery Act.

**In the next 12 months do you expect to increase investment in mitigating the risks of bribery and corruption?**

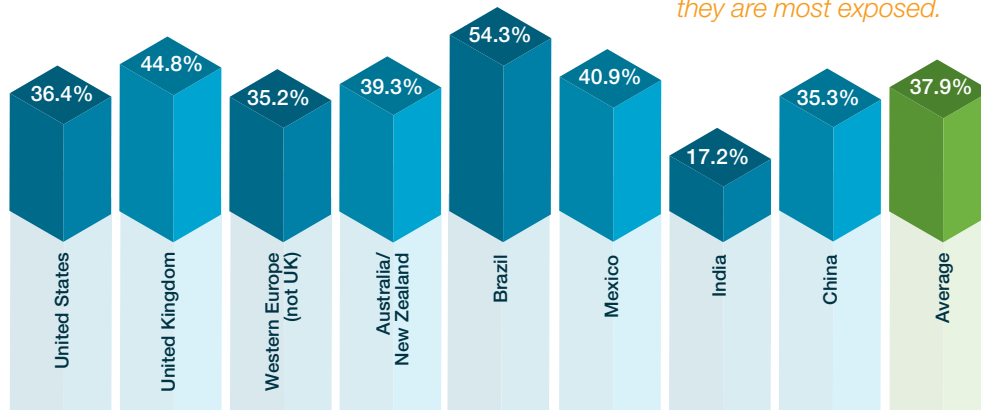


However, western enforcement is not the whole story. Elsewhere, Brazil stands out, no doubt because of the impact of the Clean Company Act. Similarly, more than 40% of Mexican companies are increasing spending on compliance: this is likely to reflect the impact of recent international anti-money laundering and FCPA cases rather than domestic legislation. By contrast only 17% of Indian companies in our survey are increasing investment. Despite the advent of India's new Companies Act, enforcement levels remain low.



*Companies place themselves in a much stronger position if they ban smaller as well as larger bribes, but this requires skill, determination and advance planning – not just a decree from head office. Before implementing a ban on small payments companies need to assess where they are most exposed.*

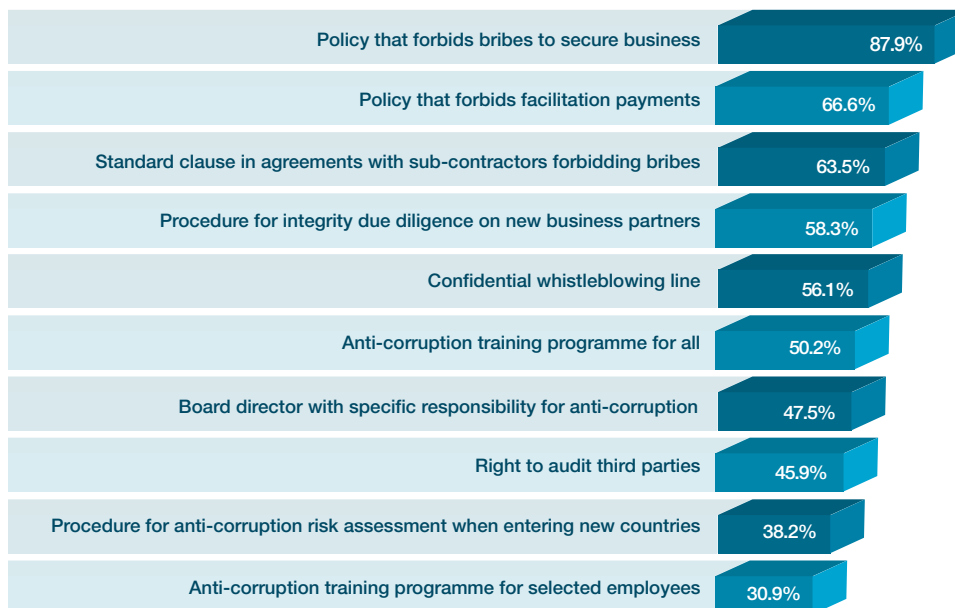
Companies planning to increase investment in mitigating the risks of anti-bribery and corruption. By company headquarters



#### WHAT COMPLIANCE MEASURES DO COMPANIES NEED, AND WHAT DO THEY HAVE?

There is now a standard body of international best practice, as defined by the UK Ministry of Justice's *Guidance* on "adequate procedures" (2011), and the US Department of Justice/Securities and Exchange Commission *FCPA Resource Guide*. We asked a series of questions about how far companies had implemented the most important anti-corruption measures.

Companies planning to increase investment in mitigating the risks of anti-bribery and corruption. By company headquarters

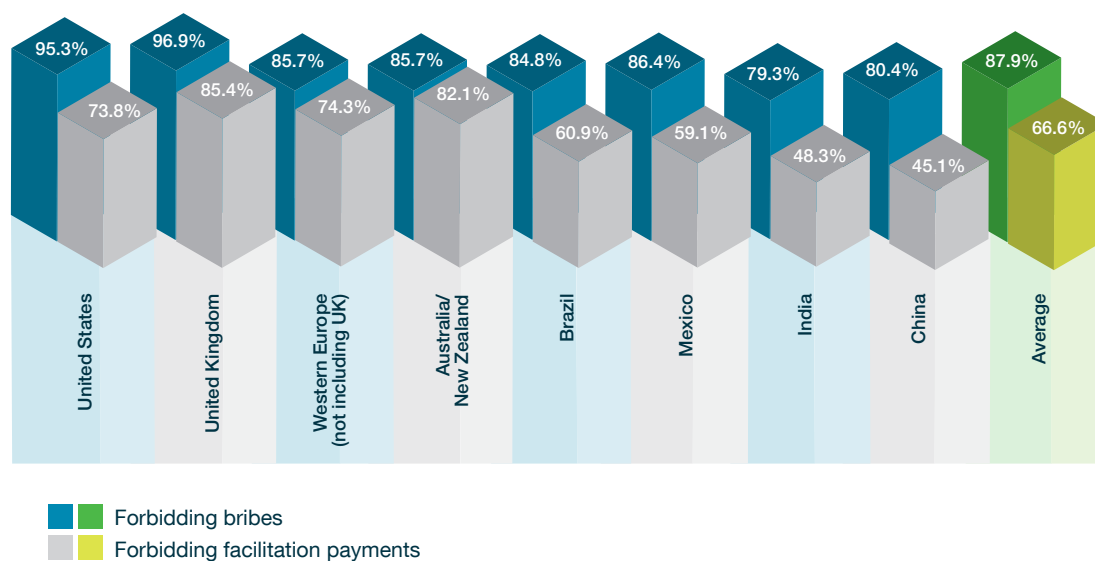


A clear majority of those surveyed (87.9%) say their company has a policy statement explicitly banning bribes to secure business. However, there are significant gaps in the extent to which companies provide practical support to employees to help them resist corruption.

## NO CONSENSUS ON “FACILITATION PAYMENTS”

Whereas the great majority of companies ban bribes to secure business, only 66% ban so-called “facilitation payments” – small bribes to speed up governmental transactions such as customs clearances that are both routine and legitimate. This inconsistency reflects legal differences as well as the practical challenges of resisting demands for such payments.

Company policies forbidding bribes/facilitation payments. By company headquarters



The term “facilitation” or “facilitating” payments comes from the US FCPA which excludes them from its definition of the criminal offence of foreign bribery. A handful of other OECD countries – including Australia and New Zealand – have introduced similar exceptions to their own laws against foreign bribery. However, the UK Bribery Act, which applies domestically as well as internationally, has no such exception. In any case, facilitation payments are illegal under almost all countries’ domestic laws.

In the light of the UK Bribery Act, it comes as no surprise that 85.4% of UK companies ban facilitation payments. Despite the FCPA exception, nearly three quarters (73.8%) of their US counterparts take the same stance. In our experience, they often do so on pragmatic grounds: it can be difficult to explain to sceptical employees why “facilitation payments” are acceptable whereas “bribes” are not. It is therefore much simpler to classify facilitation payments as “small bribes” or “operational bribes”, and ban them outright.

Nevertheless, demands for small “grease payments” are a common part of everyday life in many emerging markets, and this is reflected in the fact that companies from Brazil, Mexico, India and China are less likely to ban facilitation payments.

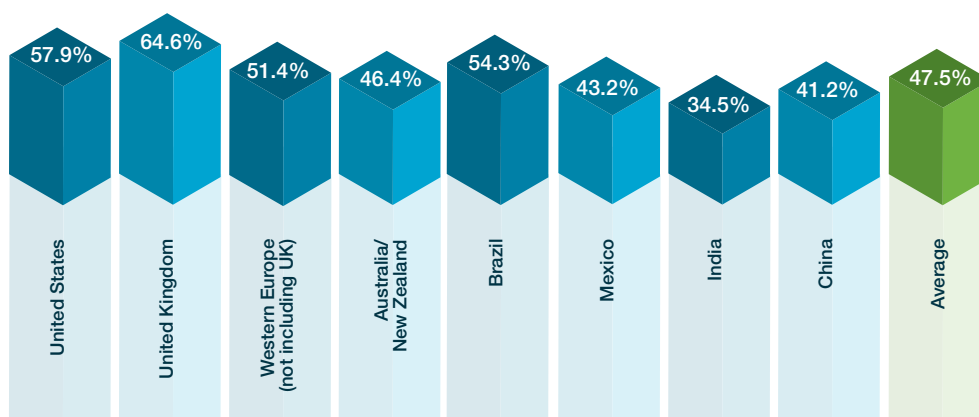
Companies place themselves in a much stronger position if they ban smaller as well as larger bribes, but this requires skill, determination and advance planning – not just a decree from head office. Before implementing a ban on small payments companies need to assess where they are most exposed. To the extent that they have been making small payments, they need to assess the consequences of refusing to pay them now.



## SENIOR LEADERSHIP: STILL LACKING

Without clear leadership from the top of a company, no policies – however well drafted – are likely to be effective. To test for this important ingredient, we asked whether respondents' companies had a board director or compliance committee with specific responsibility for anti-corruption. Only a minority of the global sample did so.

Companies with board director and/or board-level compliance committees with specific responsibility for anti-corruption. By company headquarters



Corporate governance models vary across different jurisdictions, and there is of course no single model. However, in our view, a company's reputation for integrity is a strategic issue that demands close engagement at the very highest level.



### CAUGHT IN THE CROSS-FIRE: SHAREHOLDER LAW SUITS AGAINST COMPANY MANAGEMENT IN FCPA CASES

On 29 September 2014, New York-based District Judge Paul Gardephe dismissed a shareholders' security fraud law suit against Avon Products alleging that the company's management had been "actively hostile" to effective FCPA compliance.

The case relates to ongoing FCPA investigations concerning the company's sales operations in China. In May 2014 the company reported that it was expecting to pay \$135m to settle an FCPA enforcement action brought by the SEC and the DOJ. The plaintiffs argued that the company's failure to manage FCPA risks, or to report its initial investigations in a timely manner, had misled shareholders and therefore given a false view of the company's real value.

The dismissal is good news for Avon's management, but the plaintiffs still have leave to file an amended complaint, and the case highlights the risk of shareholder lawsuits in FCPA cases. Such suits have now become commonplace in the US. Even if they do not succeed, they impose further costs to the company in legal fees. Avon is already reported to have spent more than \$300m on its China investigations.

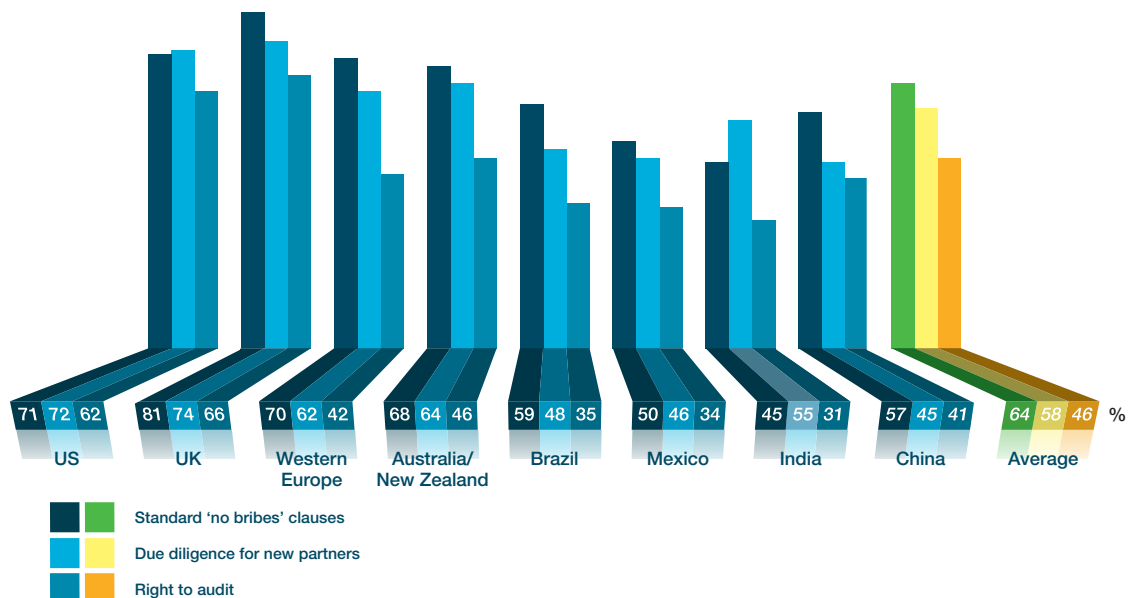


*All companies need basic due diligence policies and procedures although the level of detail required will vary according to the country and services performed. However, systematic, risk-based integrity checks should always be required for commercial agents and joint venture partners in high-risk jurisdictions.*

### THIRD PARTY CHECKS: STILL NOT ADEQUATE

As noted previously, most high-profile enforcement actions involve intermediaries who pass on bribes on their business partners' behalf. Typical examples include commercial agents who use part of their commissions to pay bribes to government officials in order to win business. In recent years, there have been several FCPA enforcement cases involving customs agents who have paid bribes to secure services to which their clients are not entitled (such as paying reduced duty or avoiding customs inspections altogether). Distributors also are coming under closer scrutiny, notably in a number of cases involving bribes to hospitals to secure medical sales.

Compliance measures for third parties. By headquarters



In all these cases the same principle applies: companies are expected to ensure that intermediaries do not pay bribes on their behalf. If they fail to do so, they may face legal action. Our survey suggests that this message is still imperfectly understood.

Standard measures include 'no bribes' clauses in contracts with sub-contractors: nearly two thirds (63.5%) of our global sample include such clauses. However, this kind of measure is effectively cost-free: there is no reason why the figure should not be approaching 100%.

On a similar note, only 58.3% had procedures for integrity due diligence on new business partners. In Control Risks' view, all companies need basic due diligence policies and procedures although the level of detail required will vary according to the country and services performed. However, systematic, risk-based integrity checks should always be required for commercial agents and joint venture partners in high-risk jurisdictions. In response to a follow-up question, only half of our respondents said that they "frequently" conduct integrity due diligence on commercial agents in these circumstances, and a similar proportion (48.9%) frequently do so for prospective joint venture partners. In our view, the proportion should be much higher.

As our survey findings show, it is less common for companies to negotiate audit rights for third party relationships, but we expect this practice to become more widespread. Actually implementing audit rights is often a tough challenge. As one of our consultants puts it, it requires a lot of “bridge building”. However, the process can bring important insights, and it sends a strong message that the company takes compliance seriously.



### MAKE THE COMMERCIAL CASE

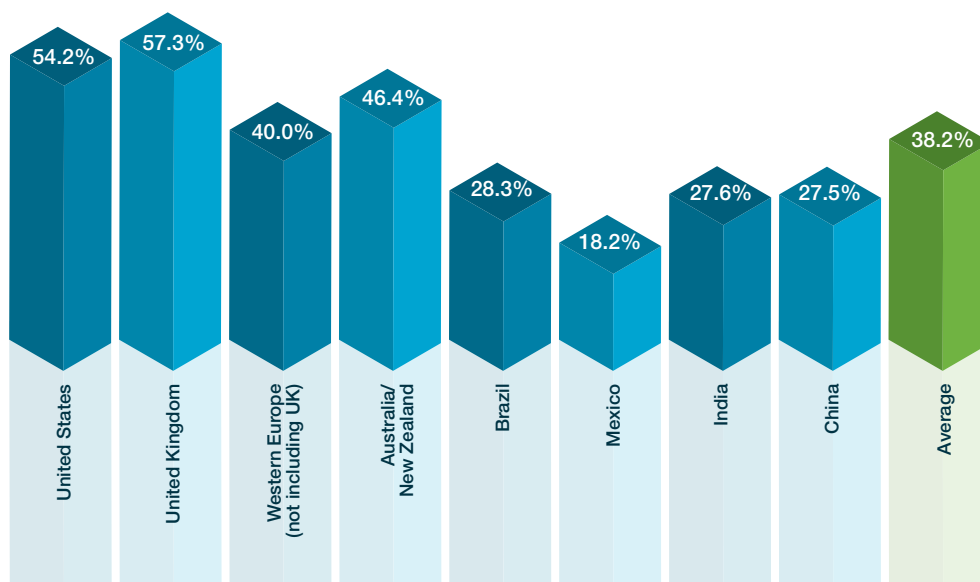
One of our clients asked us to review their due diligence procedures in a high-risk market. At first sight, the compliance regime seemed to meet all the standard requirements: basic due diligence procedures, standard contractual clauses, and rights to audit. However, a key ingredient was missing. The anti-corruption procedures had been developed in isolation from the company's commercial practice. Commercial managers therefore had little incentive to implement them: their attention was almost entirely focused on short-term profit margins. But commercial and integrity due diligence are not separate fields of enquiry. A business model depending on bribe-paying intermediaries is not just illegal. It is also inefficient, and ultimately unsustainable.

### ANTI-CORRUPTION RISK ASSESSMENT PROCEDURES WHEN ENTERING NEW MARKETS

Overall, only 38.2% of companies have anti-corruption risk assessment procedures in place when entering new countries. This figure should be considerably higher if companies want to protect themselves from corruption. Not surprisingly, given the reach of the FCPA, more than half of the US companies in our survey had these procedures in place; and in the UK, with the reach of the Bribery Act, the figure was 54.7%. This no doubt reflects a greater commitment to compliance: but it is also possible that it may point to greater exposure to international markets.

As the UK Ministry of Justice points out in its guidance document on the Bribery Act, an assessment of country risk should be a key consideration when planning international projects. A simple country rating is not sufficient. It is important to map out key decision-makers, and to understand how far the rule of law is constrained by broader political and social pressures. Equally, it is essential to focus on specific industries and business functions in some detail, and to take a nuanced view of the risks to specific business operations.

Companies with procedures for conducting anti-corruption risk assessment when going into new countries. By location of company headquarters



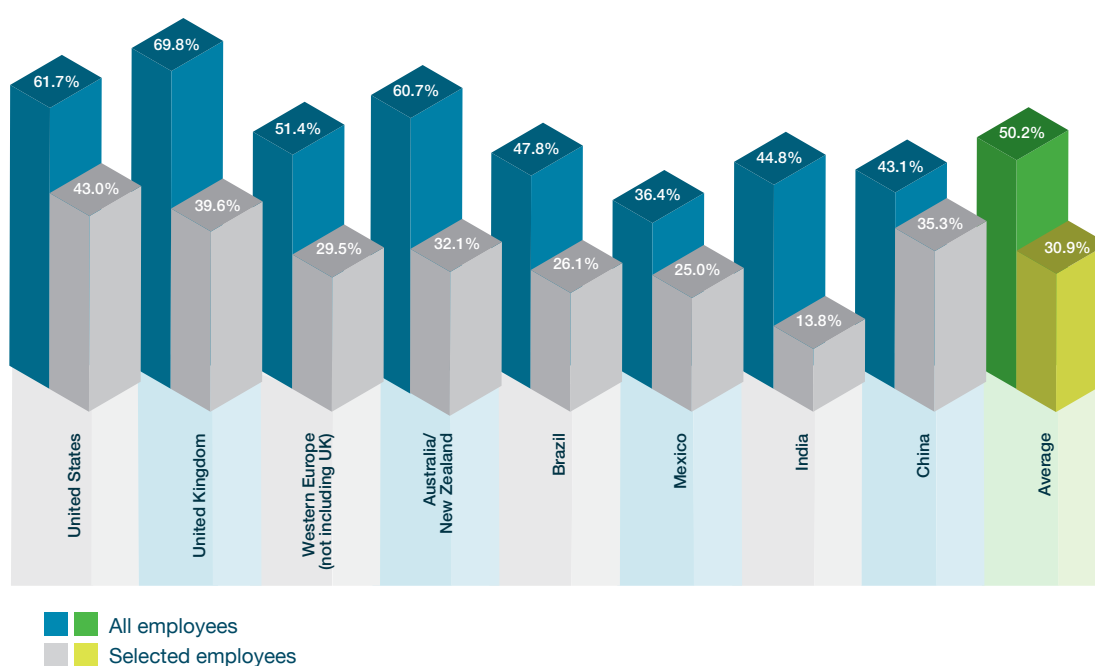
#### THINK ABOUT THE ENVIRONMENT – AND THE SPECIFICS

One of our clients, a leading international engineering company, feels justified in taking on front-end design work even in high-risk countries because this kind of activity does not require engagement with potentially corrupt officials. By contrast, a major construction project involves working with a large number of sub-contractors as well as a range of government departments: it therefore requires a much more detailed integrity risk assessment, and the company is much more selective about the regions in which it is prepared to work. Control Risks has been helping the client focus on the specific risks that apply to the company at each stage of the construction business cycle.

### ANTI-CORRUPTION TRAINING: GETTING THE MESSAGE ACROSS

Almost exactly half (50.2%) of our global sample have anti-corruption training programmes for all employees. By contrast, less than a third (30.9%) have programmes for selected groups of employees such as board directors, or executives in sales departments and other high-risk functions. These figures are far too low. By failing to introduce proper training programmes, companies are leaving themselves – and their employees – far too exposed.

Companies with training programmes for all employees/selected employees.  
By company headquarters



Training is one area where a relatively modest financial investment can yield disproportionate results. However, it needs to focus on the specific needs of particular target groups: a simple legal briefing is not sufficient. Specialised training is appropriate for board members as well as for employees who operate in high risk functions such as sales. Similarly, we recommend specialist training for finance teams on how to spot questionable payments. In our experience, this is an area that is often neglected in compliance programmes: a relatively small investment in time and training can yield disproportionate benefits.



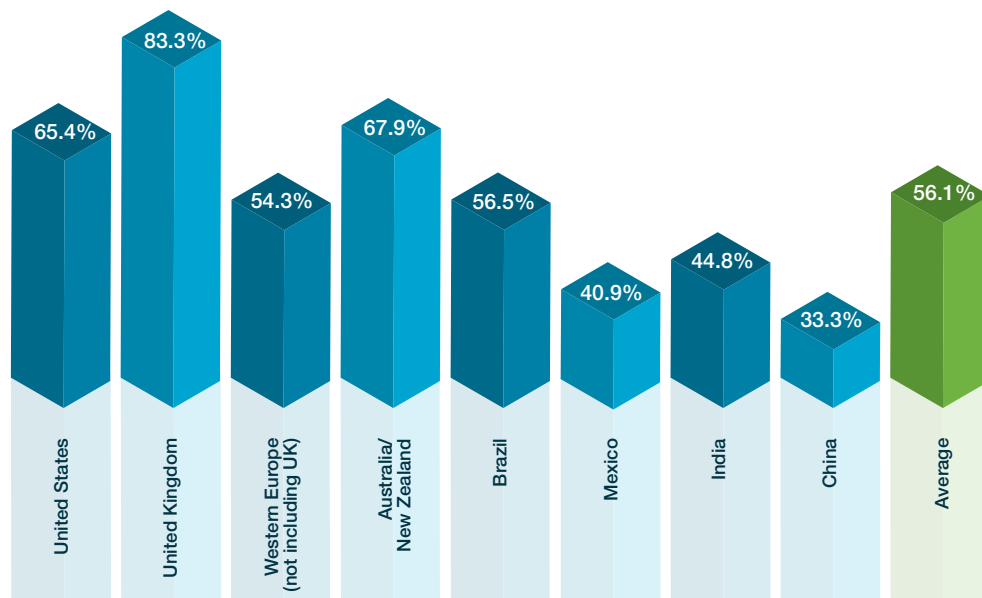
*In recent months we have come across cases in East Asia where companies have failed to give proper attention to early warning signs only to face much bigger problems when they came under investigation from external regulators.*

### INTERNAL COMMUNICATIONS AND WHISTLEBLOWER LINES

Companies should encourage multiple lines of communication whereby employees can seek advice, raise concerns and – in the worst case – report suspected malpractice.

More than half (56%) of our respondents had confidential whistleblowing lines where employees can raise concerns about suspected bribery and corruption. The proportion is highest in the UK (83.3%), and lowest in China (33%).

Companies with whistleblowing lines. By location of company headquarters



As noted previously, nearly a third of companies have conducted investigations in response to internal whistleblowing complaints. Confidential phone or internet-based whistleblowing lines are now a well-established practice in the US and the UK, less so in other jurisdictions.

The important points are firstly, to encourage multiple lines of communication, and secondly to respond to the complaints that do arise. In recent months we have come across cases in East Asia where companies have failed to give proper attention to early warning signs – including internal complaints – only to face much bigger problems when they came under investigation from external regulators. In today's compliance climate, it is rash to the point of foolhardiness to ignore whistleblower complaints.



### TECHNOLOGY MAY NOT BE THE ONLY ANSWER

We recommend confidential phone lines and internet links, but other less technical approaches also can be highly effective. One of our international clients operating in south-east Europe has found that a simple letter box where employees can place handwritten notes works well in that country's culture. The key is to find an approach – or a combination of approaches – with which employees feel comfortable.





# IMPLEMENTATION CHALLENGES AND TACKLING ISSUES IN HIGH-RISK ENVIRONMENTS

Legal and compliance teams are often caught between complex – and often conflicting – internal and external pressures.

On the one hand they need to make the anti-corruption case within commercial organisations that often place a higher priority on business acquisition. On the other hand, they need to help their companies address the requirements of external regulators, often across a number of different jurisdictions, while at the same time satisfying social expectations in the countries where they operate. Navigating these conflicting pressures requires both determination and skill. All too often compliance officers are regarded as the people who prevent business development rather than facilitating it. To gain a ‘snapshot’ of what happens in practice, we asked respondents to rank a selection first of internal challenges and then of external ones.

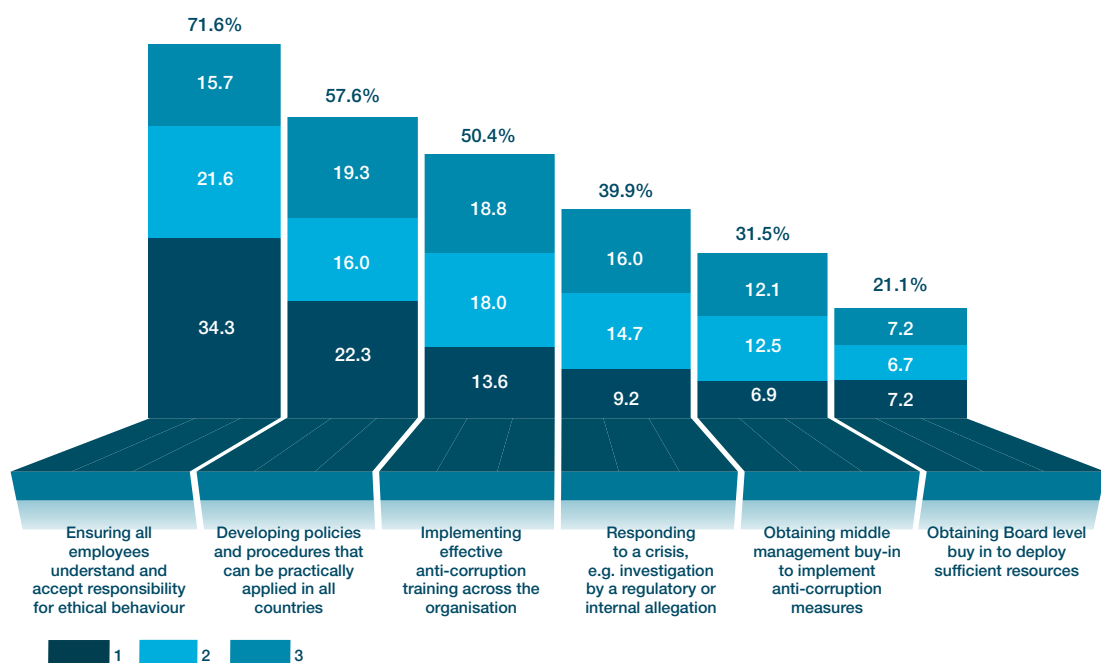
## INTERNAL CHALLENGES: COMMUNICATION IS KEY

The top three internal challenges share a common theme: “getting the message across”. Our respondents rightly put the emphasis on preventative measures. Ultimately, employees must themselves take responsibility for ethical behaviour. However, they need policies and procedures that are practical, and facilitate, rather than impede, business development. For this to work, they need effective anti-corruption training. As discussed above, effective training needs to be engaging and aligned with staff members’ day-to-day lives. Mere repetition of legal doctrine is not enough.

Almost 40% (39.9%) identified responding to the crisis that follows an investigation as a key challenge. As discussed, legal and compliance teams need to be ready to manage internal investigations whether these are triggered by demands from a regulator, or by an internal or external complaint. It is easier to achieve this to the extent that preventative compliance measures are already in place.

Securing buy-in from middle and senior management falls at the bottom of the list of those surveyed. At first sight, this is encouraging, but it would be wrong to underestimate the challenges. Senior management teams set financial priorities, and the response to our earlier question shows that budgetary constraints are preventing 17.4% of respondents from making the anti-corruption investments that they need.

## Three most challenging internal anti-corruption and compliance issues





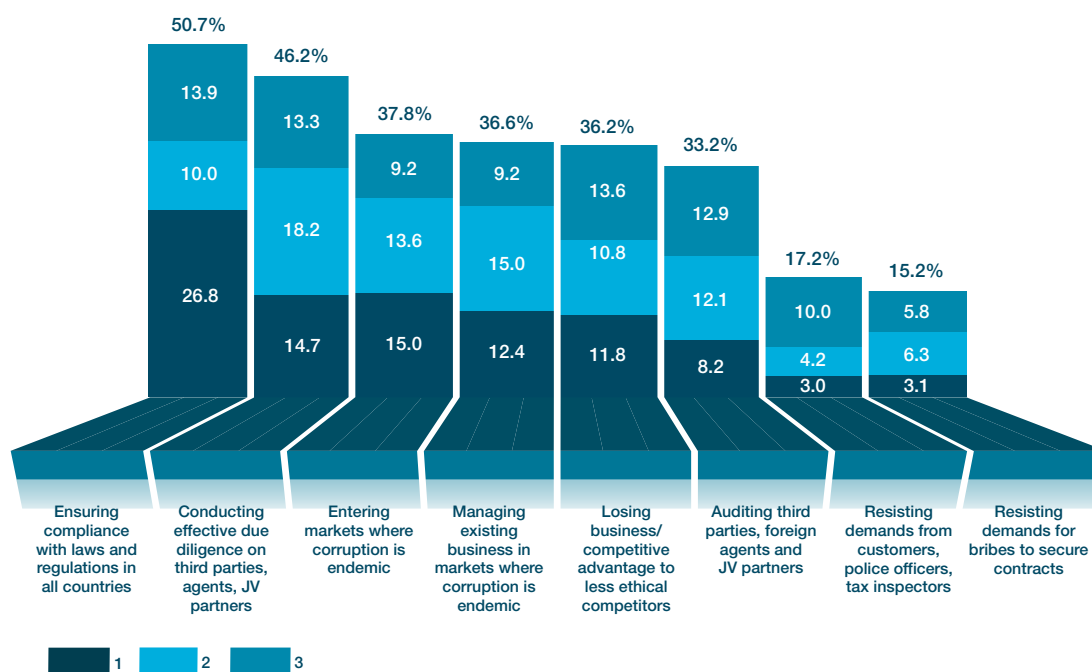
## THE LONELY COMPLIANCE OFFICER

A willingness to put up with repetitive jokes suggesting that anti-corruption strategies come from the 'business prevention department' should be part of every compliance officer's job description. Nevertheless, compliance teams are often much lonelier and more poorly resourced than they should be. We still come across examples of large, diversified companies operating in difficult sectors and high-risk jurisdictions where the compliance teams consist of just one or two people.

## EXTERNAL CHALLENGES: MANAGING COMPLEXITY

The responses to our question about external challenges pointed to even greater complexity. The most popular response – ensuring compliance with laws and regulations in all countries where the company operates – echoes the internal challenge of 'getting the message across'. In Control Risks' view, the best approach is to emphasise the higher legal standard – and an ethical stance that applies across jurisdictions – rather than focussing on the minutiae of legal variations between countries.

### Three most challenging external anti-corruption and compliance issues



As discussed, it is essential to manage relationships with third parties, and it is therefore appropriate that 'conducting effective due diligence' with this group should rank high on the list. A large part of Control Risks' work is helping companies obtain the information that they need to make informed decisions in markets where corruption is endemic.

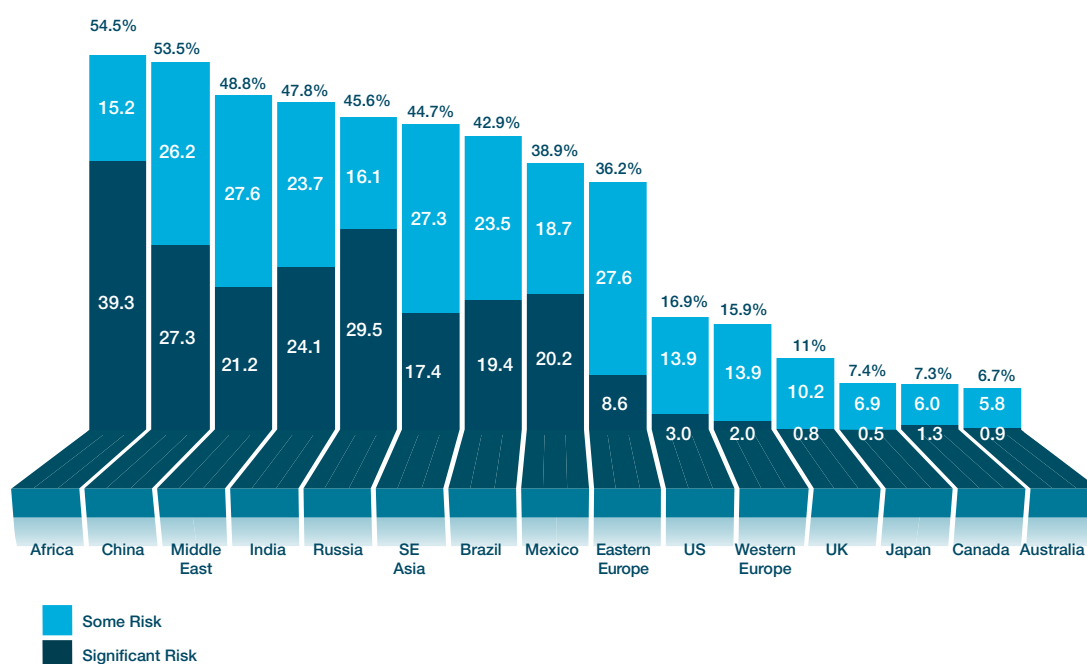
This kind of risk assessment is not a one-off exercise, to be conducted once and for all, and it is therefore appropriate that our respondents rank the challenges of entering high-risk markets almost equally with the challenges of maintaining existing business. Effective compliance requires constant vigilance and renewal, and it comes with a price. At least in the short-term, companies with high standards of integrity may lose out to less honest competitors – a point to which we return later.

Resisting demands falls at the bottom of our chart but, again, the scale and the extent of the challenge must not be underestimated. Resisting demands for bribes to secure contracts is, in one respect, more straightforward: companies have the option – painful though it may be – of withdrawing their bids. Demands for ‘operational bribes’ from police, customs officials and tax inspectors typically involve smaller sums of money. However, in countries with weak governance, requests for small bribes are much more frequent, and they typically carry an implicit threat: “if you don’t pay your business will suffer”.

## RISK AND OPPORTUNITY

When asked to rate a set of specific countries and regions for corruption risks, respondents came up with a hierarchy that, unsurprisingly, placed Africa at the top, closely followed by China, while Japan and the western industrialised economies come last.

Countries or regions posing significant corruption risks to respondents’ organisation



These rankings prompt several observations. First, the economies with the highest growth potential all fall in the higher risk categories. Secondly, no country is immune: it would be more realistic to put all countries and regions in the “some risk” category. Thirdly, the broad-brush assessment represented by this chart is no more than the starting point. Companies need to assess specific regions, cities, commercial sectors and transactions before finalising their risk assessments.

Even in the highest risk regions, the overall message is therefore not “stop at all costs”. Rather, companies need to undertake a more detailed assessment of the corruption risks attached to specific projects. Depending on their findings, they should proceed with care and develop strategies to tackle the most pressing problems.

## FACING UP TO CORRUPT COMPETITORS

Dealing with corrupt competitors is among the toughest of the challenges companies face.

US and UK companies and business associations are often heard to complain that their countries' strong anti-corruption laws put them at a disadvantage when faced with unscrupulous competitors in international markets. So does this mean that companies with strong compliance are powerless when their rivals pay bribes to secure contracts?

To test our respondents' views, we asked them to consider a scenario where their company has failed to win a contract and there is strong circumstantial evidence that the successful company has paid a bribe. We offered a series of possible options – with the possibility of choosing more than one – and asked what action they would take.

### What do you do if there is circumstantial evidence that a competitor has taken a bribe?



Overall, our respondents take a robust view: 39.3% want to gather evidence with a view to taking legal action against the corrupt competitor, and nearly 37.8% want to report the incident to the police or the regulatory authorities. However, 17.7% reserve judgement, stating that they don't know; and another 16.6% decided that it would be best to do nothing. The broad pattern of responses is similar across countries and sectors.



*The most important lesson concerns risk assessments for future business opportunities. If companies know what can go wrong and why, they are better placed to select the right opportunities and avoid the ones where they have little hope of success.*

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### A measured approach

Control Risks recommends that a company in this situation should undertake a careful assessment of its own strengths, weaknesses and strategic opportunities before taking any action.

The questions that the compliance team need to ask include: how strategically important is the missed business opportunity? How plausible is achieving legal recourse in the light of the host country's governance standards? How far will key decision-makers support any action? Is the company prepared to withstand retaliatory action – by fair means or foul – from the corrupt competitor? Does the company's own compliance framework have flaws that could be used against it in the event of a widely publicised legal dispute?

Realistically, it is hard to reverse contract awards in the high-risk jurisdictions where this kind of scenario is most likely to take place. The most important question may be: how can the company position itself to win business next time without compromising its own integrity standards?

### Consider taking action...

Three of the options in our scenario are 'confrontational'. None of these should be ruled out, but companies need to take a realistic view of the chances of success before embarking upon them.

The most popular response – chosen by 39.3% of respondents – was to try to gather evidence with a view to taking legal action. In Control Risks' view, it makes sense to find out as much as possible about what happened and why? How far is the contract award consistent with previous decisions made by the same authority? What are the motivations of the key decision-makers?

At a minimum, applying the lessons from this kind of enquiry will make it easier to assess future business opportunities. However, gathering sufficient hard evidence to present a clear-cut legal case will be a challenge in any jurisdiction, and especially in high-risk ones. If the contract was awarded by a corrupt official body, what are the chances of getting a fair hearing from another part of the same government?

A similar point applies to the second most popular response (chosen by 37.8% of respondents): reporting the incident to the police or regulatory authorities. Arguably, the company has a civic duty to report wrongdoing to the regulators. However, do these bodies have the resources to investigate the case? Even if they do, are they likely to give it fair consideration?

In our experience, complaints to the body that awarded the contract – chosen by 28% of the respondents – are more common. Indeed, in some jurisdictions (India springs to mind), it is almost routine for unsuccessful bidders to challenge government tendering processes – whether they have clear evidence or not. However, it is still rare for a contract award to be reversed in such circumstances.

### ...but take the long view

Often the most realistic approach is to accept a short-term failure to win business, while preparing the ground for greater success in the future.

'Preparing the ground' includes building up support and looking for allies. Diplomatic missions may be better placed than individual companies to send effective protest messages to the host government. Again, it is rare for diplomatic pressure to reverse contract awards once they have been made, but it may increase the chances of a fairer tendering process in the future. Similarly, business and civil society organisations have a collective interest in improving governance standards, and it makes sense to work with them where possible.

Perhaps the most important lesson concerns risk assessments for future business opportunities. If companies know – all too well – what can go wrong and why, they are better placed to select the right opportunities and avoid the ones where they have little hope of success.





## MAKING THE RIGHT CALL

Political and integrity risks often overlap, especially in countries that are at the early stages of reform: the overall environment may be improving, but how quickly? Will the improvements be sustained? And how far do optimistic presidential speeches reflect the realities of specific commercial sectors?

Control Risks helped an international company in the catering sector navigate its way through an official tendering process in the early stages of a still-incomplete political transition. We conducted an integrity review of potential partners; analysed the tendering process and its exposure to corrupt influences; and assessed the risk of corruption from potential competitors. Our client won the tender.

## FACING UP TO DEMANDS FOR SMALL BRIBES

As noted above, two thirds (66%) of the companies in our global sample have policies forbidding so-called “facilitation payments” – small bribes to speed up routine governmental action. However, there is a sharp contrast between companies with headquarters in Western industrial economies and those from emerging economies: a clear majority of companies from the UK (85.4%) and the US (73.8%) ban facilitation payments, compared with less than half of companies from India (48.3%) and China (45.1%).

### The pains of refusing to pay

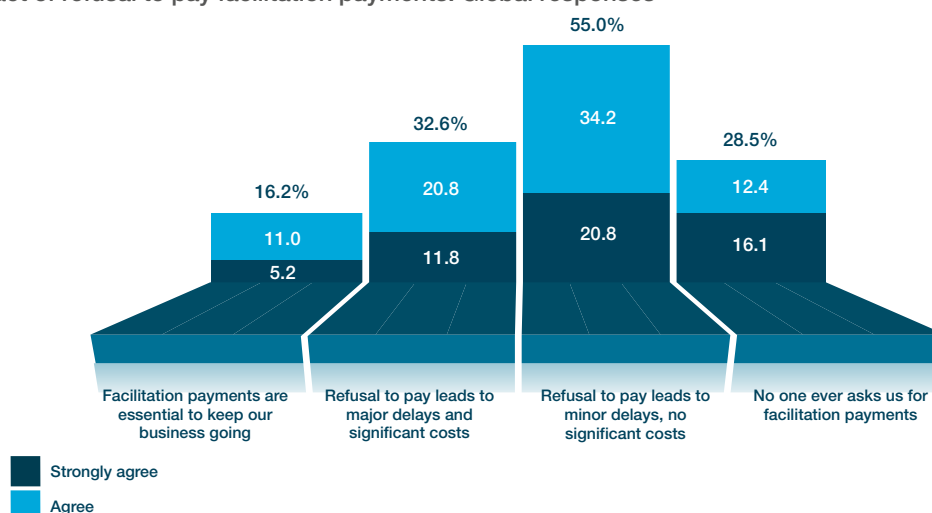
Facilitation payments are difficult to resist because – even if the amounts are relatively small – the demand can often come across as a form of extortion: “If you don’t pay your business will suffer”, for example because of expensive delays in official processes.

To find out what happens in practice, we asked respondents how far they agreed or disagreed with a series of statements on the commercial impact of refusal to pay. The results again point to a divide between industrialised and emerging economies.

Just over a quarter of companies (28.5%) in the global sample report that no one ever asks for such bribes. It’s hard to tell whether this is really the case or if those who responded to the survey are simply unaware of requests for facilitation payments. As is evident from this research, and indeed from real events, there are certain markets where corruption exists, but is well hidden from remote management. What is encouraging however, is that when faced with a request for a facilitation payment, more than half of respondents (55%) agree that refusal to pay leads to no more than minor delays and no significant costs.

But, for other respondents, life is not so simple: nearly a third (32.8%) think that refusal to pay leads to “major delays and significant costs”. Evidently some of these find ways of resisting, but a significant proportion – 16.2% of the total sample – argue that payments are “essential to keep their business going”.

### Impact of refusal to pay facilitation payments. Global responses

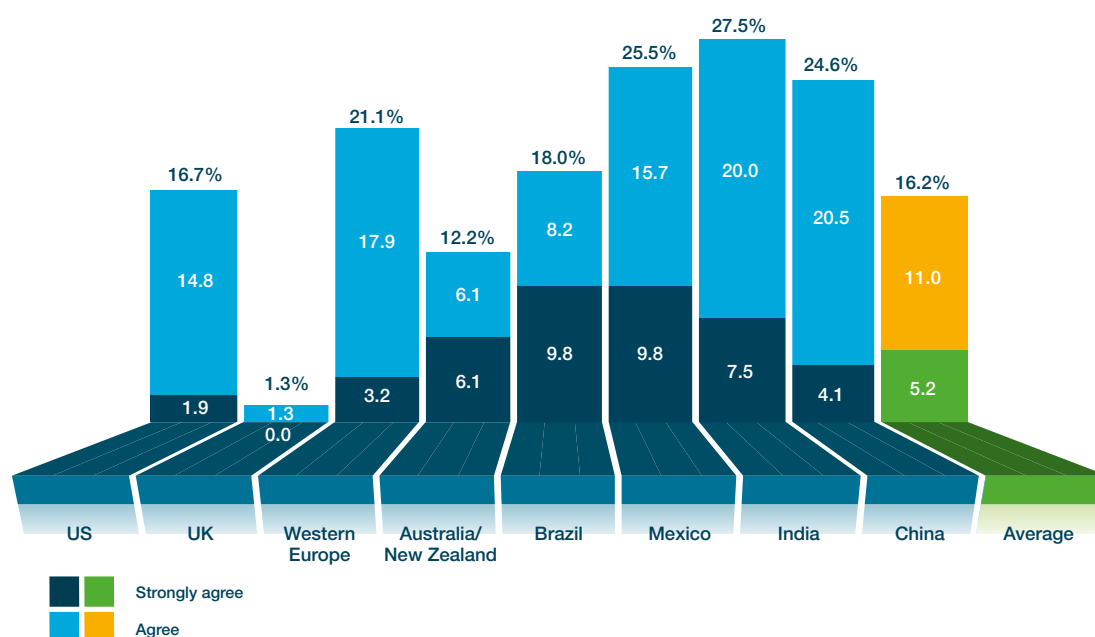


### Location matters...

A closer examination of the responses according to the location of the respondent points to a sharp geographical divide.

Only 1.3% of UK-based respondents “agree” that facilitation payments are “essential” for their businesses. A rather larger proportion of US-based respondents (16.7%) either “agree” or “strongly agree”: presumably they have international markets rather than their own country in mind. By contrast, roughly a quarter of Indian (27.5%), Chinese (24.6%) and Mexican (25.5%) companies think that facilitation payments are essential for their companies’ survival.

### Facilitation payments are essential to keep our business going. By location of respondent





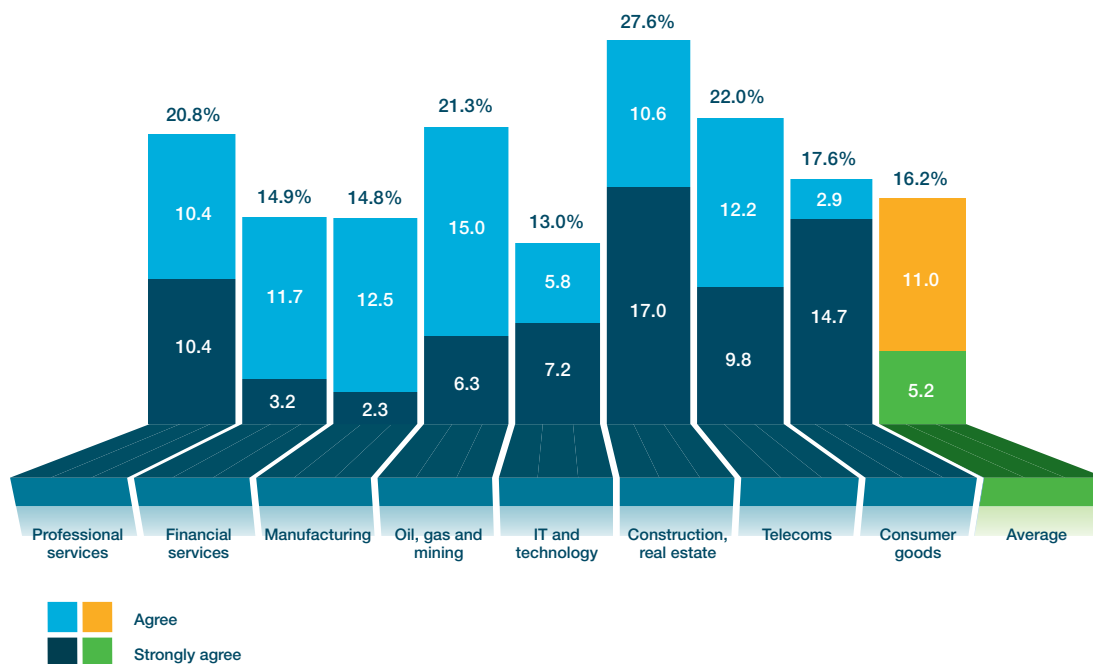
*Neither location nor sector are determining factors that make the payment of facilitation payments inevitable. It is striking that, even in countries such as India and Mexico where demands for facilitation payments are said to be commonplace, more than half of the respondents agreed that refusal to pay “leads to minor delays but no significant impact”.*

### ...and so does the commercial sector

The commercial sector also makes a difference: a total of 27.6% of the respondents in construction and real estate “agree” or “strongly agree” that facilitation payments are “essential” (compared with a cross-sectoral average of 17.2%). At the project execution stage of their work, construction companies operate against tight deadlines, and there are often significant financial penalties for failure to meet them. Against that background, it may be all the more tempting to regard facilitation payments – for example to speed up environmental approvals – as a necessary measure to meet their targets.

A similar point applies to oil, gas and mining companies once they reach the production stage of their business cycles: delays in production at a major site may cost hundreds of thousands of dollars a day. A total of 21.3% of respondents from these sectors argued that facilitation payments were “essential”.

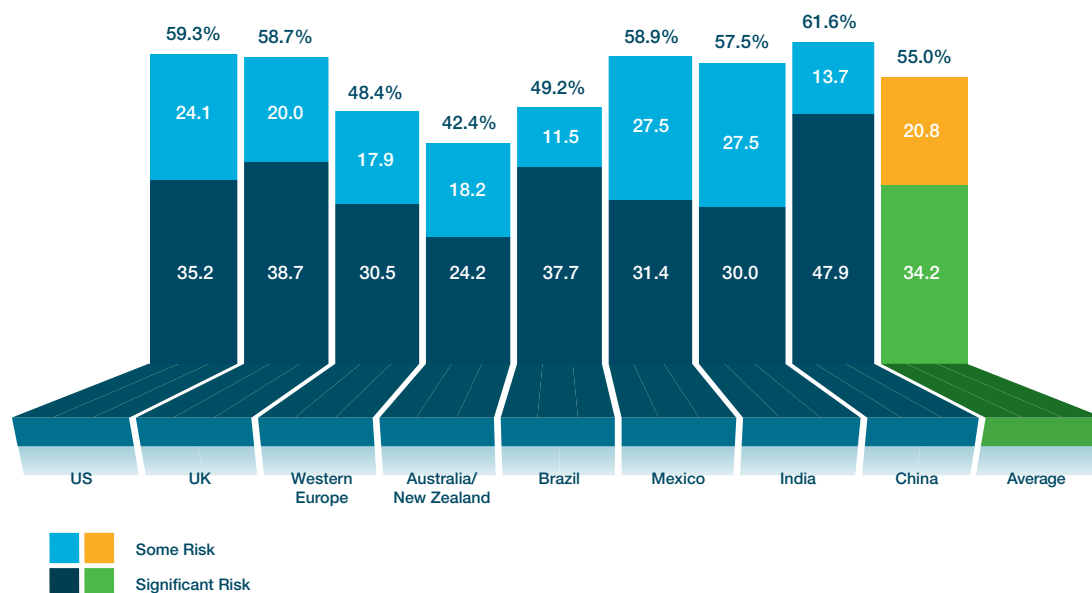
### Facilitation payments are essential to keep our business going. By sector



### But neither location nor sector are ‘destiny’

However, neither location nor sector are determining factors that make the payment of facilitation payments inevitable. It is striking that, even in countries such as India and Mexico where demands for facilitation payments are said to be commonplace, more than half of the respondents agreed that refusal to pay “leads to minor delays but no significant impact”.

Refusal to pay facilitation payments leads to minor delays but no significant impact.  
By location of respondent



### DRAWING ON LOCAL INGENUITY

Sometimes successful resistance requires no more than a polite refusal to pay. At other times, it requires a bit more skill, and people on the frontline may have the answer.

Insurers typically require evidence that companies have reported a theft to the police before accepting a claim, and in parts of India the police are notorious for demanding bribes before accepting 'first information reports'. A manager in South India discovered an alternative approach: he found that insurers were willing to accept the fact that the company had sent a registered letter to the police as evidence that the report had been made.

### So what makes the difference?

Control Risks' experience of working with companies in high-risk environments points to some of the success factors that help companies resist demands for small-scale bribes. Even if – as our survey implies – many companies successfully resist, no one should underestimate the challenges.

In short, companies need the following:

- Clear policies that are communicated effectively both internally and externally.  
The message should be: “This company doesn’t pay. There is no point in asking”.
- Strategic leadership and “tone from the top”, including a willingness to accept short-term delays and commercial costs arising from refusal to pay larger as well as smaller bribes.
- Risk assessments that are concerned with attention to detail for high-risk areas, as well as broader country assessments. Companies need to ask how far specific business processes – especially the most time-sensitive ones – are exposed to demands for bribes.
- Training that includes practical strategies for resisting demands for small bribes if – as is often the case – these are part of trainees’ everyday experiences. For example, a straight refusal – “this company doesn’t pay” – may be sufficient. In other cases, the company or the individual may need to appeal to more senior officials. The recommended strategy needs to be relevant to the specific environment in which the trainees are working.
- To take responsibility for what third parties do on their behalf, and to act accordingly. Delegating the payment of small bribes to business intermediaries such as customs brokers is not the answer, as demonstrated by a series of FCPA enforcement cases.

This report argues that companies need to be prepared to be “called to account”. If they are to defend their records, and flourish in high-risk environments, they need to be able to demonstrate consistency in resisting small bribes as well as larger ones.



#### HOW FAR IS IT REALLY THE ‘SYSTEM’, OR SIMPLY HABIT?

Demands for small bribes are hardest to resist when they are part of the ‘system’, the way that things have always been done. But if this is the case, what is the system, and how does it really work? A junior employee in Central Asia told Control Risks that foreign business people often came to his country expecting to pay bribes at every step. When the first demand came, they handed over the money without demur, even if the payment wasn’t actually ‘necessary’. Local people looked on this approach with some contempt, and he himself had resigned from an earlier post when he was asked to be the bag carrier for a bribe payment.

In many countries, the ‘way that things have always been done’ is changing, for example through the introduction of tax payments through electronic means. Nevertheless, in our work with international companies we frequently come across areas – not so much entire countries as specific government departments – where corrupt practices appear to be entrenched. Even in these cases, it is usually possible for companies to secure the services that they require without paying bribes, but it requires a much higher degree of management determination, and a willingness to accept ‘wasted’ time and higher costs. Long term changes require institutional reform, and this should be seen as a legitimate target for company lobbying, for example through chambers of commerce.





## APPENDIX: COMPANIES SURVEYED

### COUNTRY/REGIONAL BREAKDOWN

Europe is the best represented region, with 31.5% of respondents working for companies headquartered there, followed by the Asia/Pacific region (23.5%), North America (21.3%), Latin America (14.1%), the Middle East (6.9%) and Africa (4.4%). The best represented individual countries are the US (107 companies with US headquarters) and the UK (96 companies).

	RESPONDENTS BASED IN THIS COUNTRY/REGION		RESPONDENTS WITH HEAD OFFICES IN THIS COUNTRY/REGION	
	NUMBER	PERCENTAGE OF TOTAL	NUMBER	PERCENTAGE OF TOTAL
<b>Africa</b>	37	5.8%	28	4.4%
<b>A/NZ</b>	33	5.2%	28	4.4%
<b>Brazil</b>	61	9.6%	46	7.2%
<b>Canada</b>	33	5.2%	29	4.5%
<b>China</b>	73	11.4%	51	8.0%
<b>India</b>	40	6.3%	29	4.5%
<b>Mexico</b>	51	8.0%	44	6.9%
<b>Middle East</b>	43	6.7%	33	5.2%
<b>Rest of Asia</b>	43	6.7%	42	6.6%
<b>Rest of Europe</b>	95	14.9%	105	16.5%
<b>UK</b>	75	11.8%	96	15.0%
<b>US</b>	54	8.5%	107	16.8%
<b>Total</b>	<b>638</b>	<b>100%</b>	<b>638</b>	<b>100%</b>

### INDUSTRY SECTORS

Respondents were invited to identify their industry sector from the following list. Some respondents chose more than one sector, and the total therefore comes to more than 100%.

<b>Professional services</b>	23%	<b>Logistics and distribution</b>	3%
<b>Financial services</b>	15%	<b>Media</b>	3%
<b>Manufacturing</b>	14%	<b>Automotive</b>	3%
<b>Oil, gas and mining</b>	12%	<b>Transportation</b>	3%
<b>IT and technology</b>	11%	<b>Education</b>	3%
<b>Construction and real estate</b>	7%	<b>Healthcare services</b>	3%
<b>Telecoms</b>	6%	<b>Agriculture and agribusiness</b>	3%
<b>Consumer goods (excl retail)</b>	5%	<b>Retailing</b>	3%
<b>Chemicals</b>	4%	<b>Travel and tourism</b>	2%
<b>Pharmaceuticals and biotechnology</b>	4%	<b>Defence</b>	2%
<b>Natural resources</b>	4%	<b>Other</b>	5%
<b>Energy</b>	4%		

**Report compiled by Control Risks experts worldwide.  
Main author John Bray, with support from Frank Tsai.**

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## Control Risks' offices

abudhabi@controlrisks.com  
alkhobar@controlrisks.com  
amsterdam@controlrisks.com  
baghdad@controlrisks.com  
basra@controlrisks.com  
beijing@controlrisks.com  
berlin@controlrisks.com  
bogota@controlrisks.com  
chicago@controlrisks.com  
copenhagen@controlrisks.com  
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jakarta@controlrisks.com  
johannesburg@controlrisks.com  
lagos@controlrisks.com  
london@controlrisks.com  
losangeles@controlrisks.com  
mexicocity@controlrisks.com  
moscow@controlrisks.com  
mumbai@controlrisks.com  
nairobi@controlrisks.com  
newyork@controlrisks.com  
panamacity@controlrisks.com  
paris@controlrisks.com  
portharcourt@controlrisks.com  
saopaulo@controlrisks.com  
seoul@controlrisks.com  
shanghai@controlrisks.com  
singapore@controlrisks.com  
sydney@controlrisks.com  
tokyo@controlrisks.com  
washington@controlrisks.com

[www.controlrisks.com](http://www.controlrisks.com)