

ANTI-CORRUPTION 4.0

Designing Corruption Out of the System—for Good

For decades, corruption has been viewed as an insurmountable obstacle in emerging and opaque markets. This is finally beginning to change. Forward-thinking executives are tackling corruption head-on by prioritizing anti-corruption efforts and working with governments and civil society to create viable new business opportunities. We refer to this new approach as Anti-Corruption 4.0.¹

I. THE ANTI-CORRUPTION NARRATIVE THUS FAR

Since the passage of the US Foreign Corrupt Practices Act (FCPA) in 1977, Western companies have predominantly focused on corruption *avoidance*. More recent laws and statutes, prompted in large part by the 1997 OECD Convention on Combating Bribery of Public Officials in International Business Transactions and the 2003 UN Convention Against Corruption, have reinforced the necessity of avoiding corruption and helped to bring transparency and accountability to how business is conducted across the globe. Significant fines for non-compliant parties and increased enforcement, particularly over the past decade, have caused companies to spend substantial sums on anti-corruption programs. But the approach has remained largely reactive. Many companies skirt certain markets and jurisdictions out of fear and perceived risk, and in some instances, opportunities are avoided based on red flags identified in a last-minute risk assessment.

As global growth markets become the focus for a range of multinationals, however, some industry leaders have found that corruption *prevention* can and must be part of any market-entrance strategy—not only because the law mandates it, but also because it is good for business.

Rather than avoiding certain markets based on a blanket assessment of perceived risks, leading-edge executives identify specific risks and overcome them through decisive, nuanced, and tailored strategies that enable them to operate in an ethical and transparent manner, even in the world's most corruption-prone markets. And they engage in such anti-corruption efforts from the very top. These “4.0 companies” do not relegate compliance to a stand-alone function, but integrate anti-corruption efforts into all aspects of their operations and culture.

After all, there are no corrupt countries; there are only corrupt individuals. Even within markets where corruption is systemic and widespread, it is possible to proactively shape the operating environment and conduct business in an ethical and transparent manner. This has significant benefits, not least for customers, staff members, and other stakeholders in a given market:

- ▶ **Increased opportunities.** High-growth regions are often avoided because of perceived corruption risks. This is especially so in much of Africa. Knowing the context and specific threats of a given region—beyond general rankings of transparency—empowers a company to

¹ A version of this paper was originally produced in collaboration with the World Economic Forum's Partnering Against Corruption Initiative (PACI) and presented in January 2014 at the WEF Annual Meeting in Davos.

face those risks head-on. No market should be automatically avoided based on perceived corruption risks.

- ▶ **Reputation.** Now more than ever, it is imperative to have good standing in a host country to ensure long-term success. Corruption is perceived as the root cause of numerous social ills in many such countries, as evidenced by the recent Arab Spring. Companies leading the fight against corruption can make significant strides toward earning a long-lasting “social license to operate” in countries whose citizens are tired of the status quo.
- ▶ **Influence.** Companies that do business in corruption-prone countries can also influence host governments by resisting corrupt solicitations and promoting transparency. Conversely, a foreign business pulling out of a given country, or going public with knowledge of any corrupt practices therein, can lead to substantial social and economic problems that any host government would be wise to avoid if they want to be competitive in this new era.

Figure: Evolution of Anti-corruption Strategies

- 1.0 (1977-1997) **Anti-corruption era begins**
Limited anti-corruption efforts; establishing compliance programs; changing attitudes
- 2.0 (1997-2005) **Increasing scrutiny**
Adoption of OECD and UN conventions against corruption; several high-profile prosecutions; risk assessment viewed as important
- 3.0 (2005-2014) **Major uptick in prosecutions**
Significant increase in prosecutions; anti-corruption increasing as a political issue; higher regulatory standards expected by authorities; risk assessment seen as an essential cost of doing business; extreme caution toward opaque markets
- 4.0 (2014 -) **Designing corruption out of the system**
Proactive: viewed through a strategic lens to capitalize on opportunities in a given market by shaping the conditions of the deal and operating environment

II. THE HIDDEN COST OF A 3.0 APPROACH

The results of a survey conducted last fall by Veracity Worldwide in conjunction with the World Economic Forum’s Partnering Against Corruption Initiative (PACI) offer a snapshot of corporate views on anti-corruption efforts. While most respondents agree that compliance with anti-corruption laws is a necessary expense of doing business and ultimately a benefit to stakeholders, they indicate that they have largely avoided certain regions and would-be partners because of perceived risks, causing them to miss out on lucrative and viable opportunities.²

² Veracity-WEF Survey, conducted in November 2013

- ▶ Nearly 70% of respondents believe that corruption risk will increase over the next five years, 27% believe it will remain constant, and less than 3% believe it will decline.
- ▶ Only two respondents reported that they had attempted to quantify lost opportunities because of corruption risk, and one of them described the cost as “devastating.”

It is clear that opportunities are lost because of corruption concerns, but there is little understanding of the extent of those losses. Anecdotal evidence suggests that the numbers are high; a key objective of a 4.0 approach would be to quantify opportunities that previously might have been avoided.

III. FOUNDATIONS OF THE 4.0 APPROACH

While corruption exists to different degrees and in multiple forms in various sectors and countries, it can be overcome through careful due diligence and tailored strategies that wrest power from corrupt parties and place it in the hands of investors and the populations they serve. This approach can be supported through a number of concrete objectives:

- ▶ **Prioritize the issue.** Start from the top and make anti-corruption part of an organization-wide strategic conversation rather than the concern of one department. If the conversation begins in the C-suite, it will necessarily filter down and permeate every branch of a given company. Compliance, business development, government relations, and company culture can contribute to a holistic anti-corruption agenda. Finally, assess agents, would-be partners, and other third parties through an anti-corruption lens at the earliest opportunity, not the last.
- ▶ **Work with local governments.** Research the context of a given country, region, or jurisdiction early in the process and develop a tailored strategy for each deal. Work jointly with committed government officials to develop a common commitment to a clean, transparent set of operating principles. Most importantly, because corruption exists in multiple forms and to varying degrees in different markets, it is necessary to approach each situation with a unique strategy and a nuanced understanding of the potential risks. A standardized strategy will leave many stones unturned.

IV. LOOKING AHEAD

As more companies adopt a 4.0 approach, they can further shape conditions by engaging in collective action. Through international, sector-wide, anti-corruption initiatives, executives can not only help their own businesses prosper but also foster more transparent and open markets in the communities where they operate.

Collectively, companies engaged in the fight against corruption can change the corruption narrative not only for themselves, but also for the business community at large. And as anti-corruption efforts are universally accepted as an essential aspect of doing good business in the 21st Century, then corruption will necessarily begin to fade away.

ABOUT VERACITY WORLDWIDE

Veracity is the premium advisor on political, corruption, and reputation risks in challenging markets. Our approach relies on credible insight, actionable analysis, and assured results. We combine an extensive network of sources with a rigorous methodology to gather and analyse obscure information and provide advice that is clear and fully contextualized. Our work enables clients to make confident, informed decisions even in the most challenging markets.

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