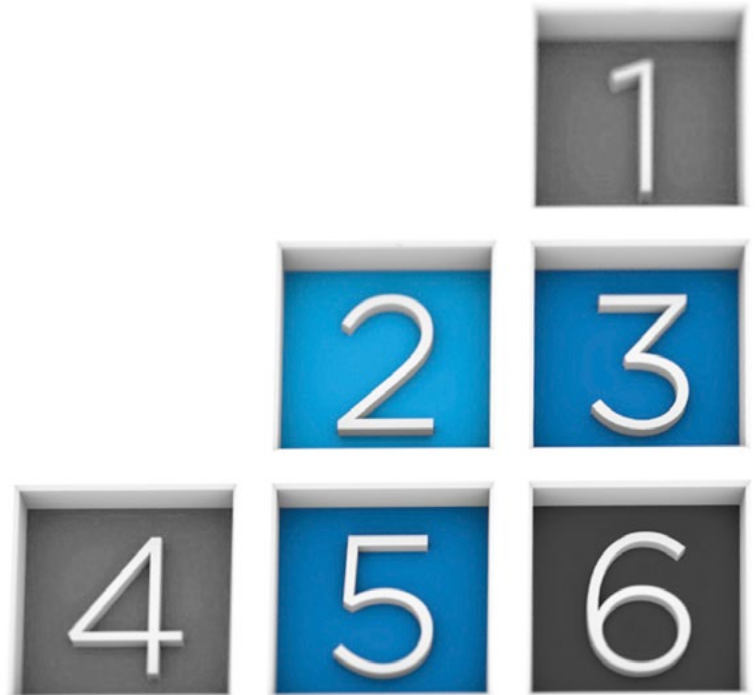


# ENGAGING ON ANTI-BRIBERY AND CORRUPTION

A GUIDE FOR  
INVESTORS  
AND  
COMPANIES

# THE SIX PRINCIPLES

- 1** We will incorporate ESG issues into investment analysis and decision-making processes.
- 2** **We will be active owners and incorporate ESG issues into our ownership policies and practices.**
- 3** **We will seek appropriate disclosure on ESG issues by the entities in which we invest.**
- 4** We will promote acceptance and implementation of the Principles within the investment industry.
- 5** **We will work together to enhance our effectiveness in implementing the Principles.**
- 6** We will each report on our activities and progress towards implementing the Principles.



## ACKNOWLEDGEMENTS

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This document is produced by the PRI and UN Global Compact and does not necessarily represent the views of individual participants of the PRI's coordinated engagement group on anti-bribery and corruption or the UN Global Compact's 10th Principle Working Group, other companies or third parties that have helped to contribute material to this document. The inclusion of company names and/or examples in this publication is intended strictly for learning purposes based on information in the public domain and are not intended to express an opinion on the sustainability performance of the companies. Mention does not constitute an endorsement of the individual company by the either UN Global Compact or the PRI.

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# PREFACE

Corruption remains one of the world's greatest challenges. It has a disproportionate impact on poor communities and is a major hindrance to sustainable development. For companies, corruption impedes economic growth, distorts competition and represents serious legal and reputational risks. Also, the anti-corruption landscape is rapidly changing. Legislation and new rules worldwide are pushing companies to see robust anti-corruption measures as a necessity. Today's landscape of ever increasing information transparency and accountability makes companies subject to greater scrutiny. Corruption increases the cost of doing business, and simultaneously raises uncertainty over expected returns for investors.

This is why a growing number of investors are looking into companies' anti-bribery and corruption systems. They are also using anti-bribery and corruption engagement as a litmus test for the overall quality of companies' business practices and management. Investors that engage can encourage further improvements to companies' systems and disclosure, and a more transparent business environment. Investors benefit by decreasing reputational risks and helping to safeguard the long-term performance of their portfolios.

It is for these reasons that the UN Global Compact and the Principles for Responsible Investment (PRI) have joined forces to produce an evidence-based guide on company-investor engagement on anti-bribery and corruption. The insights in this report come from data collected from the PRI-coordinated engagement. The lessons that were learnt come from this engagement too, as well as a series of interviews with investors who took part, and feedback collected by the UNGC from companies. It has been designed for investors demonstrating active ownership, who wish to see meaningful progress, and companies that want to stay ahead of the curve.

Whether a company has already been engaged on anti-bribery and corruption issues, or simply recognises that they too are likely to face more scrutiny, this guidance can be put to immediate use to manage these risks. It provides clear actions to implement the UN Global Compact's 10th Principle against Corruption: by benchmarking against best practices, continually updating anti-bribery and corruption controls, and providing stakeholders with information in a structured way.

**Engaging on anti-bribery and corruption: a guide for investors and companies** will help investors and companies alike move forward on this issue globally – for the good of the economies and, ultimately, the societies in which they operate.

CORRUPTION  
REMAINS  
ONE OF THE  
WORLD'S  
GREATEST  
CHALLENGES.

# WHY ENGAGE? THE BUSINESS CASE

## THE COST OF BRIBERY AND CORRUPTION IS IMMENSE

Every year, corruption losses represent over 5% of global GDP (US\$2.6 trillion)<sup>1</sup> and bribes exceed US\$1 trillion.<sup>2</sup> This is a cost which can be brought to bear on companies and their investors, and one that is detrimental to governments and society. Corruption adds up to 10% to the cost of doing business globally and up to 25% to the cost of procurement contracts in developing countries.<sup>3</sup>

Corruption is best understood as a shorthand reference for a wide range of activities that encompasses bribery as an important subset.<sup>4</sup> Corruption scandals including bribery, fraud, rate and test rigging, can prove catastrophic to companies, as shown below.

Figure 1: Reported losses from large company corruption scandals (examples in order of quantum of estimated losses)

Company	Estimated Losses (US\$) <sup>5, 6, 7, 8</sup>	Date	Scandal	Impact
WorldCom	107 billion	2002	Accounting fraud	<ul style="list-style-type: none"> <li>the biggest bankruptcy in US corporate history</li> <li>20,000 workers lost their jobs</li> </ul>
Volkswagen	87 billion	2015	11 million cars worldwide fitted with a so-called "defeat device" that ran the car below normal power and performance when an emission test was occurring	<ul style="list-style-type: none"> <li>impact of corruption scandal still unfolding</li> <li>significant damage to Volkswagen's brand and the wider automotive sector</li> </ul>
Enron	74 billion	2001	Accounting fraud	<ul style="list-style-type: none"> <li>largest corporate bankruptcy in US history until WorldCom's bankruptcy</li> <li>5,000 workers lost both their jobs and the majority of their pensions which were invested in Enron stock</li> </ul>
Petrobras	21 billion	2015	Alleged diversion of billions of dollars from company accounts for their executives use, or to pay off officials	<ul style="list-style-type: none"> <li>impact of this corruption scandal is still unfolding</li> <li>significant damage to Petrobras's brand and to Brazil's image as a destination for investment</li> <li>service providers have downgraded the companies' credit rating<sup>9</sup></li> </ul>

1 The total cost of corruption may exceed these amounts, as a true estimate of the cost of global corruption is masked by the covert nature of infringements [http://www3.weforum.org/docs/WEF\\_PACI\\_BusinessCaseFightingCorruption\\_2011.pdf](http://www3.weforum.org/docs/WEF_PACI_BusinessCaseFightingCorruption_2011.pdf)

2 <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20190187~menuPK:34457~pagePK:34370~piPK:34424~theSitePK:4607,00.html> an updated figure has not been published since 2003, estimates suggest this figure may be nearer to US\$1.5 trillion today.

3 [http://www3.weforum.org/docs/WEF\\_PACI\\_BusinessCaseFightingCorruption\\_2011.pdf](http://www3.weforum.org/docs/WEF_PACI_BusinessCaseFightingCorruption_2011.pdf)

4 Corruption is the abuse of entrusted power for personal gain. Bribery in turn refers more specifically to the offering, promising, giving, accepting or soliciting of an advantage as an inducement for an action. This is illegal, unethical and a breach of trust. Inducements can take the form of gifts, loans, fees, rewards or other advantages (such as taxes, services and donations). See more: [http://www.transparency.org/whatwedo/publication/the\\_anti\\_corruption\\_plain\\_language\\_guide](http://www.transparency.org/whatwedo/publication/the_anti_corruption_plain_language_guide)

5 <http://money.cnn.com/gallery/news/2015/10/14/biggest-corporate-scandals/6.html>

6 <http://www.economist.com/news/business/21650557-enforcement-laws-against-corporate-bribery-increases-there-are-risks-it-may-go>

7 The cost of the Petrobras scandal has been estimated at 21 billion US dollars: <http://www.nasdaq.com/article/corruption-scandal-will-cost-petrobras-at-least-21-billion-cm468892-with-investors-seeking-damages-as-a-result-http://www.ft.com/cms/s/0/086849ac-d916-11e4-a8f1-00144feab7de.html#axzz3rIODriQJw>

8 <http://www.accounting-degree.org/scandals/>

9 [https://www.moody.com/research/Moodys-downgrades-Petrobras-and-Petrobras-Argentinas-ratings--PR\\_344237](https://www.moody.com/research/Moodys-downgrades-Petrobras-and-Petrobras-Argentinas-ratings--PR_344237)

Company	Estimated Losses (US\$) <sup>5, 6, 7, 8</sup>	Date	Scandal	Impact
Various international banks <sup>10</sup>	9 billion (in fines)	2012	Manipulation of LIBOR interest rate benchmark	<ul style="list-style-type: none"> <li>■ fines and other prosecutions</li> <li>■ public loss of confidence may drive down the wider finance industry profits for years</li> </ul>
AIG	3.6 billion	2005	Accounting fraud	<ul style="list-style-type: none"> <li>■ largest quarterly loss in 2008</li> <li>■ bailed out by US tax payers</li> </ul>
Siemens	3 billion	2008	Payment of bribes for contracts	<ul style="list-style-type: none"> <li>■ significant loss of trust</li> <li>■ focus on improvements appear to have helped rebuild the company's reputation</li> </ul>
Olympus	1.7 billion	2011	Accounting fraud	<ul style="list-style-type: none"> <li>■ cut 2,700 jobs</li> <li>■ scrapped around 40% of its 30 manufacturing plants globally (It is unclear how much of this restructuring was as a direct result of the corruption scandal).</li> </ul>

Furthermore, companies embroiled in corruption scandals can suffer from:

- damage to brand, reputation and share price;
- exclusion from potential business opportunities;
- liability to pay hefty fines;
- diversion of significant senior management time away from running the business to manage investigations and prosecutions. This is especially the case with Non Prosecution Agreements (NPAs) and Deferred Prosecution Agreements (DPAs) (see following page).

Investors in turn risk reputational damage as well as reduced returns if they invest in companies that are implicated in corruption, particularly if the resultant scandal is poorly managed by the portfolio company.

Institutional investors' fiduciary duty to act in the best interests of their beneficiaries means that they should encourage existing or prospective investee companies to have policies and practices that will reduce uncertainty over long-term returns.

Effective implementation of anti-bribery and corruption standards is not only a risk preventative or remedial measure, but can advantage businesses by increasing the size of the market too. For example, companies will benefit by receiving more revenue for products sold if money 'leaked' through corruption can be eliminated or significantly reduced from the purchasing process.

<sup>10</sup> Barclays, CitiGroup, JP Morgan, RBS, USB and Bank of America

## THE REGULATORY RISK IS INCREASING ACROSS JURISDICTIONS

Since 2010 the UK Bribery Act requires companies to demonstrate their provision of “adequate procedures” to prevent bribery (see Appendix B), and introduced strict penalties for offending individuals and companies alike. This legislation was a significant development for corporate liability, placing a greater burden of proof on UK companies operating abroad, as well as foreign companies doing business in the UK.

In the US, the use of non-prosecution agreements (NPAs) and deferred prosecution agreements (DPAs) has significantly increased in the last fifteen years (see figure 2), and similar approaches are now being adopted in other countries. For example, in November 2015 the UK Serious Fraud Office (SFO) agreed their first DPA, and indicated that the “landmark DPA will serve as a template for future agreements... it also endorses the UK SFO’s contention that the DPA in this case was in the interests of justice and its terms were fair, reasonable and proportionate.”<sup>12</sup> Other OECD countries and emerging markets are following the US’s lead in prosecuting international companies (see figure 3).

With the rapid development of new and tougher regulations on anti-bribery and corruption around the world<sup>13</sup> and following the publication of the *Yates Memo*<sup>14</sup> by the US Department of Justice in 2015, enforcement is increasingly likely to lead to criminal prosecution and imprisonment for individuals deemed culpable.

### Deferred Prosecution Agreements<sup>15</sup>

Under a deferred prosecution agreement (DPA), the US Department of Justice files a charging document with the court. It simultaneously requests that the prosecution be postponed to allow the company to demonstrate its good conduct. DPAs generally require a defendant to:

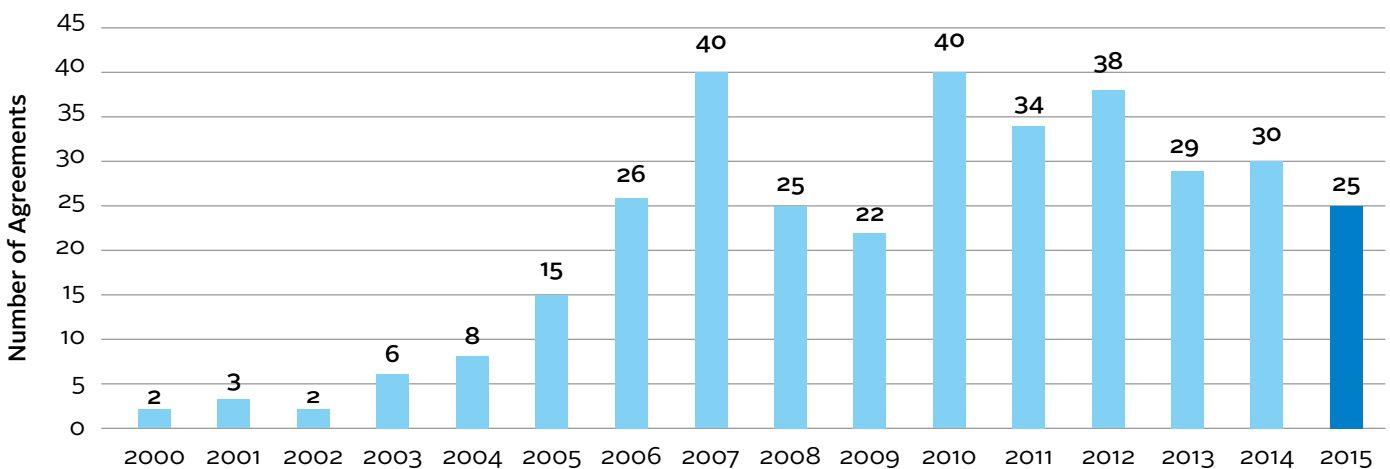
- agree to pay a monetary penalty;
- waive the statute of limitations;
- cooperate with the government;
- admit the relevant facts;
- enter into certain compliance and remediation commitments, potentially including a corporate compliance monitor.

### Non-Prosecution Agreements

Under a non-prosecution agreement (NPA), the US Department of Justice maintains the right to file charges but refrains from doing so to allow the company to demonstrate its good conduct during the term of the NPA. Unlike a DPA, an NPA is not filed with a court but is instead maintained by the parties. The requirements of an NPA are similar to those of a DPA, and generally require:

- a waiver of the statute of limitations;
- ongoing cooperation;
- admission of the material facts;
- compliance and remediation commitments;
- payment of a monetary penalty.

Figure 2: An example from the US: corporate NPA's and DPA's, 2000-2015<sup>11</sup>



Note: The SEC entered into eight of the above corporate NPAs and DPAs: 2010 (1), 2011 (3), 2012 (1), 2013 (1), 2014 (1), and 2015 (1)

11 Excluding DOJ Swiss Banking Programme.

12 <https://www.sfo.gov.uk/2015/11/30/sfo-agrees-first-uk-dpa-with-standard-bank/>

13 E.g. Bribery act and SEC creation of a specialised unit for FCPA enforcement

14 <https://www.justice.gov/dag/file/769036/download> an example of new measures that will impact corporations with operations in the United States or listed on a US stock exchange.

15 <http://www.justice.gov/sites/default/files/criminal-fraud/legacy/2015/01/16/guide.pdf>

Figure 3: An example of an emerging market enforcing legal action against a multinational and individual employees

## GlaxoSmithKline fined US\$490m by the Chinese government<sup>16</sup>

China fined UK pharmaceutical firm GlaxoSmithKline (GSK) US\$490m (£297m) after a court found it guilty of bribery.

The record penalty followed allegations that the drug giant paid out bribes to doctors and hospitals in order to have their products promoted. The court gave GSK's former head of Chinese operations a suspended three-year prison sentence. Other GSK executives were given suspended jail sentences.

Chinese authorities first announced they were investigating GSK in July 2013, in what has become the biggest corruption scandal to hit a foreign firm in years. The company was accused of having made an estimated US\$150m in illegal profits.

### How GlaxoSmithKline responded to the scandal<sup>17</sup>

While being investigated, GSK stated it was "committed to learning the lessons and taking all appropriate action in relation to the outcome of the investigation".

GSK took a number of immediate actions as a result of the investigation including:

- commissioning an independent report from an international legal firm;
- simplifying policies underpinning its Code of Conduct and updating the Code to reinforce the critical role GSK values play in protecting its reputation and commercial success;
- introducing mandatory annual business/ethical leadership certification programmes to raise awareness, understanding, and compliance with GSK's values and policies;
- modernising its sales and marketing practices.

Over the past few years, GSK has led the way in shifting the pharmaceutical commercial model to meet the expectations of its customers and increasing patient trust, by removing any perceived conflict of interest between GSK and prescribers of medicines. They have stopped direct payments to healthcare professionals (HCPs) to speak on GSK's behalf about prescription medicines or vaccines. Internal medical experts now offer knowledge and expertise when it is needed by HCPs through the use of digital technology platforms.

GSK has also adopted a new compensation scheme for sales professionals. Since January 2015, GSK Pharmaceutical Medical Representatives are no longer financially rewarded for the number of individual prescriptions generated. Instead they are incentivised based on their technical knowledge, the quality of service they deliver to HCPs to support improved patient care, and a broader set of business performance measures.

GSK engages effectively with shareholders through regular communications, their AGM, and investor relations activities. During the China investigation (and following the outcome thereof), and recognising investor concerns around this issue, GSK kept up a continuous and open dialogue with investors on the topic.

<sup>16</sup> <http://www.bbc.co.uk/news/business-29274822>

<sup>17</sup> Information provided by GSK Communications and Government Affairs, London

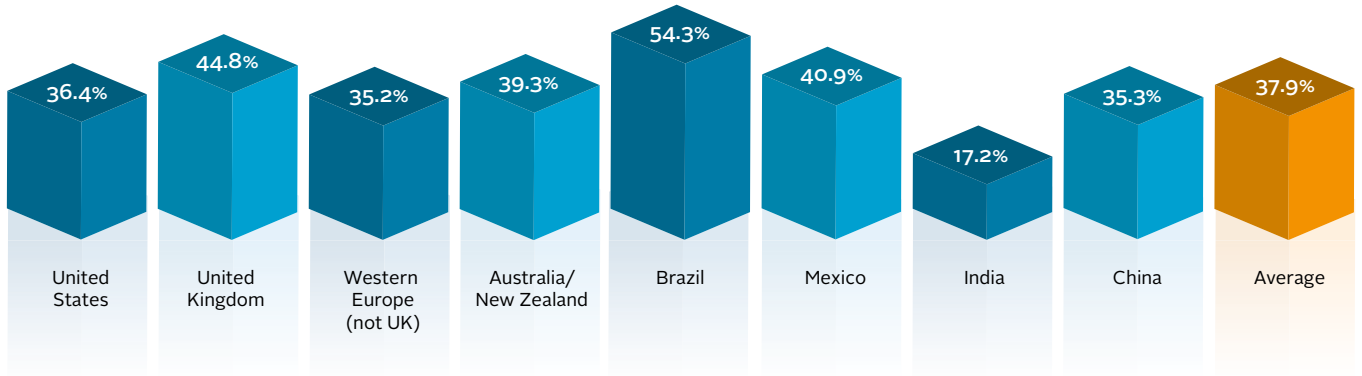


## THERE IS AN INCREASED APPETITE IN THE INTERNATIONAL BUSINESS COMMUNITY AND BEYOND

Companies wanting to avoid risks to financial performance need robust anti-bribery and corruption policies and implementation mechanisms. Good governance attracts and retains ethically-oriented employees and builds trust between companies, consumers and other stakeholders. Companies that prioritise the right measures will be better

placed to attract long-term capital from responsible investors. They will also be more likely to become the preferred partner for consumers who value ethics and transparency. All these reasons contribute to an increased appetite for stronger anti-bribery and corruption systems within the international business community (figure 4).

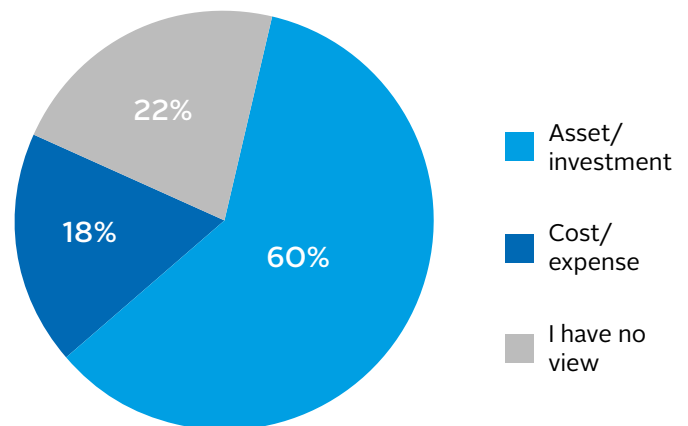
Figure 4: [International Business Attitudes to Business Corruption](#). In a survey of 638 global companies conducted by Control Risks in 2014, nearly 38% of companies indicated that they planned to increase investment to mitigate anti-bribery and corruption risks in the next year.



The global profile of the economic and social costs of corruption has been further increased with the launch of the United Nations Sustainable Development Goals (SDGs).<sup>18</sup> SDG 16 calls for “peace, justice and strong institutions” and indicator 16.5 explicitly asks signatories to “substantially reduce corruption and bribery in all its forms.” Companies are increasingly moving to integrate the content of the goals in their long term business strategies, and the private sector will be crucial to achieving the SDGs. Companies that implement the UN Global Compact’s 10th Principle against corruption – through a commitment and implementation of anti-bribery and corruption policies and practices, can also find themselves in a better position to address corruption issues and move forward toward advancing SDG 16.

A majority of companies surveyed as part of a recent OECD study viewed money allocated to business integrity improvements as **an investment rather than an expense** (figure 5).<sup>19</sup> This is yet another indicator that companies see anti-bribery and corruption policies and implementation as more than just a preventative measure.

Figure 5: Business integrity budget: investment or expense?



<sup>18</sup> SDG’s - On September 25 2015, 193 UN member states adopted a set of goals to end poverty, protect the planet, and ensure prosperity for all as part of a new sustainable development agenda. Each goal has specific targets to be achieved over the next 15 years.

<sup>19</sup> <http://www.oecd.org/daf/ca/Corporate-Governance-Business-Integrity-2015.pdf>

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## AN OPPORTUNITY FOR INVESTORS AND COMPANIES TO SHOWCASE THEIR LEADERSHIP

Dialogue with shareholders allows companies to showcase their leadership in this area, and demonstrate how they implement related programmes, building further legitimacy and trust with investors. This creates a competitive advantage for the company and helps strengthen its ability to generate long-term financial returns. Through dialogue, companies learn about new and evolving investor expectations, and global trends on anti-bribery and corruption and governance issues.

Both one-to-one and collaborative engagement (see definition below) enable companies to gather a more specific understanding of what investors are seeking in terms of transparency on anti-bribery and corruption policies and practices, as well as identifying any potential gaps that need to be addressed.

### INVESTORS, THERE IS STRENGTH IN NUMBERS

Collaborative engagement<sup>20</sup> is when a group of investors work together to approach investee companies on environmental, social and corporate governance (ESG) issues of concern. The PRI-led engagement which ran from 2013-2015 took this format, and benefits to this approach include:

- reduced cost of engagement;
- lower barriers to entry to access companies;
- boosted potential impact by sharing understanding of companies, engagement strategies and regional and sector expertise.

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<sup>20</sup> See also [PRI's Introductory Guide to Collaborative Engagement](#)

# ACHIEVEMENTS OF THE INVESTORS' COLLABORATIVE ENGAGEMENT

## ABOUT THE PRI-COORDINATED ENGAGEMENT (2013-2015)

Given the increasing importance of the issue, a group of PRI investors participated in a coordinated engagement on anti-bribery and corruption between 2013 and 2015. The main objectives of the engagement were to:

- better understand companies' ability to manage and reduce bribery and corruption-related risks;
- achieve enhanced transparency and disclosure of anti-bribery and corruption strategies, policies and management systems;
- verify the effectiveness of companies' processes to adequately protect against regulatory concerns;
- enable investors to better assess and manage their exposure to the financial, operational and reputational impacts of corruption risks in their portfolios.

As well as helping to further improvements for the companies engaged, it provided an evidence-based standard for future engagements.

## BENCHMARKING TARGET COMPANIES

In 2013, the PRI commissioned Transparency International (TI) to evaluate public disclosure on anti-bribery and corruption issues by a group of 45 selected companies. The TI research covered large capitalisation companies across all markets and sectors that had either poor disclosure on anti-bribery and corruption policy and management, or had faced regulatory issues due to corruption scandals.

TI performed this assessment based on 13 indicators from TI's publicly available [Transparency in Corporate Reporting methodology](#). They also used five additional indicators generated by the investor group that aimed to capture companies' commitment and culture around anti-bribery and corruption measures. Investors selected 32 companies for engagement around key areas of strengths and weaknesses identified by these 18 questions. Two years into the engagement (2015) each of the companies were scored again using the same methodology (see figure 6).

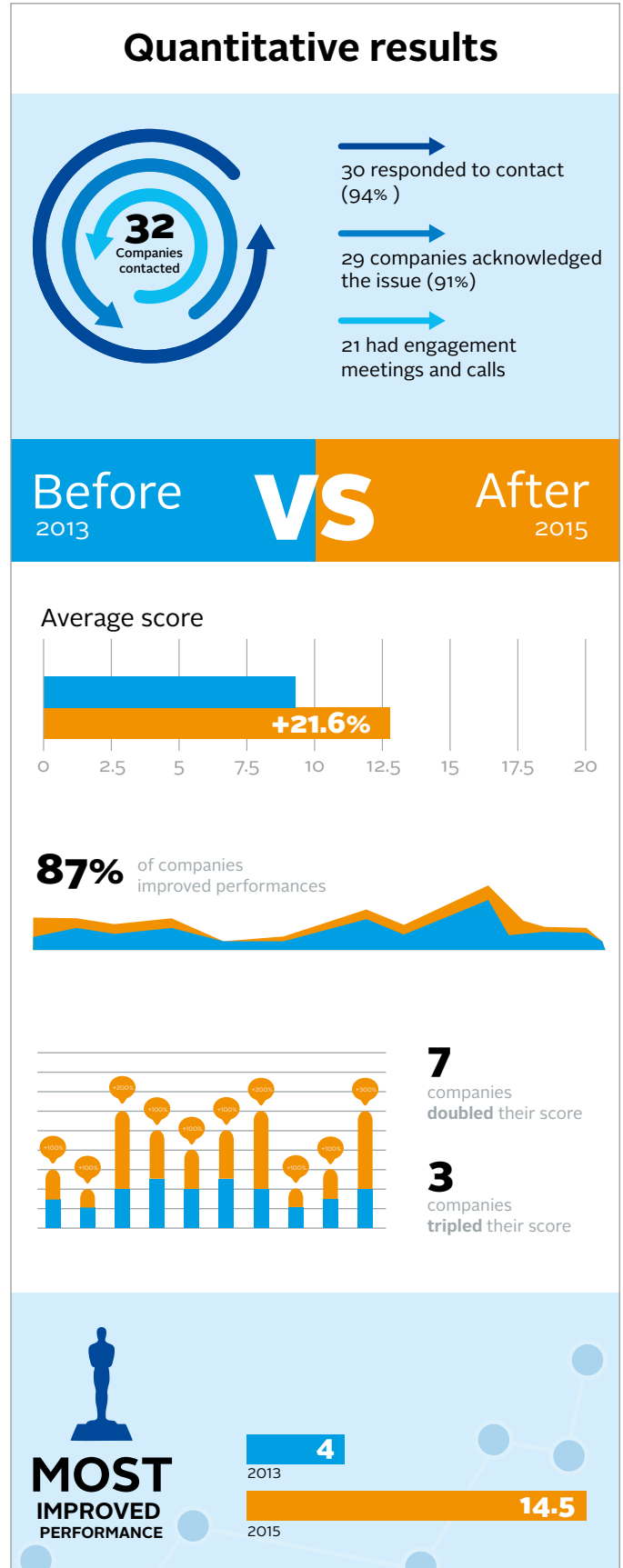
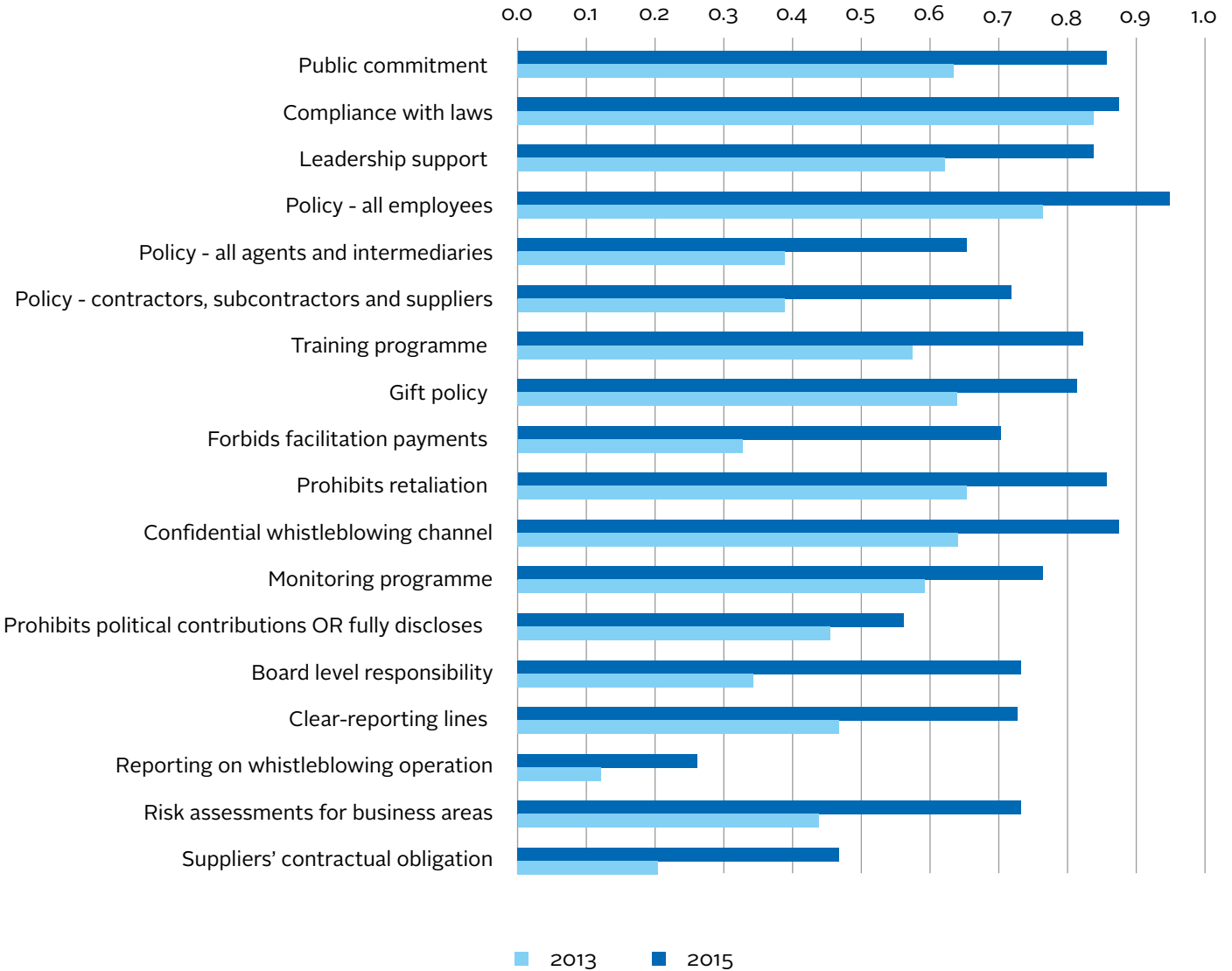


Figure 6: Indicator performance - average score per company (max of 1). An overview of results. See full indicators in Appendix A



## WHICH AREAS SAW THE MOST AND LEAST CHANGE?

The scores recorded by both pre and post-engagement on company disclosure of compliance with all relevant legislation, including anti-bribery and corruption laws, was high. In the context of the recent increase in national and international anti-bribery and corruption [legislation and Governance codes](#), as well as the rising number of [regulatory investigations](#), this observation is not surprising.

Scores that changed most during the two-year engagement were on: having a person present at board level responsible, and providing a policy prohibiting facilitation payments. Investors can expect positive results from engagement in these two areas. They both require senior level approval, but are clearly easier to report on than areas which require long term implementation, such as regularly reporting on the operation of whistleblowing hotlines.

## DISCLOSING A CODE OF CONDUCT THAT APPLIES TO CONTRACTORS, SUBCONTRACTORS AND SUPPLIERS SAW THE NEXT LARGEST IMPROVEMENT IN SCORE

**The three areas where scores changed the most through the period of engagement were focussed around policy and strategy.** Quantitative scores improved less for indicators of implementation, particularly around companies' monitoring and feedback processes. It is significant that disclosure of policies and compliance with laws are areas where substantial improvement is shown. Companies appear to be better at disclosing policies, than at monitoring and/or disclosing how those policies work in practice.

## IMPLEMENTATION IS KEY

Investors used quantitative scoring followed by dialogue to engage with companies on more sensitive anti-bribery and corruption areas. Overall, across the 18 quantitative indicators, 13 concerned policy and strategy disclosure, while five focused on implementation. It is through engagement that investors are keen to discuss, in detail, how companies effectively **implement** their commitments, policies and strategies. Going forward, investors can deepen their engagement by balancing higher level strategy and policy areas with discussion on robust implementation, and how this implementation is evidenced.

## WHISTLEBLOWING POLICIES AS A CASE IN POINT

The results also uncovered an interesting juxtaposition between companies increasingly disclosing their provision of a whistleblowing hotline and non-retaliation policy, against reporting on the operation of the hotline (i.e. number and type of complaints made, whether the report was internal or external, resulting dismissals etc.) which scored relatively low and improved only for a few companies.

Where this was raised through engagement dialogue, investors explained that such disclosure is important for them as it helps to evidence that the line is being used and monitored. This indicates a healthy culture around the companies' response to corruption risks. Several companies did provide robust clarification of their approach and, if applicable, gave reasons why they did not meet this indicator in their public reporting. Investors understood the need for companies to balance disclosure in such sensitive areas. However, they explained during the engagement dialogue that such disclosure is key to showing that the line is being used and monitored.

20 See also [PRI's Introductory Guide to Collaborative Engagement](#)

# A GUIDE FOR SUCCESSFUL ENGAGEMENT

## BEFORE ENGAGEMENT

### FIRST STEPS AND PREPARATION

#### FIRST ACTIONS FOR INVESTORS



##### DECIDE AMOUNT OF INVESTED UNIVERSE

Select 1-10% of invested universe to engage, based on: the resources available to you, percentage holding in the companies, and materiality of the anti-bribery and corruption issue (what is the impact? how many issues are there?)

Engage on one or two specific areas of anti-bribery and corruption, allowing a minimum of 18-36 months with several engagement calls or meetings per year.



##### CONDUCT BACKGROUND RESEARCH

Cross-reference any research and intelligence on target companies to identify specific issues to engage on.

Remember that it is possible to engage with companies with ongoing investigations.



##### MAKE INITIAL CONTACT

Make initial contact with the companies' board, executive members or investor relations.

If you have an existing contact, approaching them in the first instance is beneficial.



##### YOUR APPROACH

Open with the value case for strong anti-bribery and corruption systems. Refer to national corporate governance and disclosure requirements where applicable (especially in regions where investor engagement is less well developed)

#### FIRST ACTIONS FOR COMPANIES



##### KNOW INVESTOR EXPECTATIONS

What are your investors' anti-bribery and corruption/governance expectations?

Use your understanding to perform a gap analysis of your existing policies and practices.



##### BENCHMARK

Benchmark your anti-bribery and corruption policies and practices against best practice.



##### INFORM YOUR BOARD

Make your board aware of any impending anti-bribery and corruption engagement with investors, as well as developments regarding anti-bribery and corruption programmes and policies.



##### ESTIMATE RESOURCE

How much resource is required for a successful dialogue with investors? Identify and prioritise key anti-bribery and corruption issues. What portion of the company stock is held by which investors? What are the investors interested in? Which anti-bribery and corruption issues represent the greatest risks for them?



##### TAILOR RESPONSES

Establish the most effective means to respond, tailoring responses per topic and issue.

## EXAMPLES OF GOOD GOVERNANCE IN RELATION TO ANTI-BRIBERY AND CORRUPTION SYSTEMS

The two most widely-known best practices in relation to anti-bribery and corruption systems are:

- “Adequate Procedures” as required by companies that have to comply with the UK Bribery Act (see Appendix B)
- Compliance systems designed to comply with the US Foreign Corrupt Practices Act (see Appendix C)

## BEFORE ENGAGEMENT: THE INVESTOR PERSPECTIVE

### TAILOR YOUR ENGAGEMENT

Investors working in the PRI-coordinated group typically undertook engagement with companies selected by:

- percentage of holdings;
- the number of ESG issues relevant to the companies’ operations;
- potential impact on the companies’ operations and/or fundamental valuation;
- any investment policy breaches (taking into consideration the [UN Global Compact principle 10](#), for example).

Both investors using passive investment strategies and those that actively stock picked with a ‘bottom up’ approach used engagement to monitor companies’ implementation of anti-bribery and corruption standards in line with their investment policy requirements.

### CONDUCT BACKGROUND RESEARCH

Before initiating dialogue, investors assessed companies’ existing anti-bribery and corruption policies and practices to identify strengths and areas for improvement. They reviewed contextual information about companies’ anti-bribery and corruption record, history of previous engagements as well as any potential ‘tailwinds’ for progress on anti-bribery and corruption from regional developments. Such examples include: the development of [Japan’s corporate governance code](#) and the [anti-bribery and corruption drive in China](#) spearheaded by the General Secretary, Xi Jinping.

Investors can use national corporate governance and disclosure requirements where applicable (especially in regions where investor engagement is less well developed) to further build the value case for good anti-bribery and corruption systems.

### APPROACHING AN EXISTING CONTACT HELPS

An engagement was usually initiated at board or executive management level. Meetings or calls thereafter typically took place with company representatives who report directly to the Chief Executive, such as the Senior Compliance Officer or the Head of Investor Relations.

Investors indicated that the engagement was less likely to be a tick box exercise if the initial contact was at a senior level, and that use of an existing relationship was more important than contact with a specific non-executive or executive. Mutual trust is the key component of successful engagement on anti-bribery and corruption issues.

### MAKE THE ENGAGEMENT CONSTRUCTIVE FROM THE OFF

Setting clear targets and expectations is very important, as well as recognising when (and when not) to push companies regarding sensitive areas. Some investors were even able to meaningfully engage with companies undergoing an anti-bribery and corruption investigation, by using existing relationships and by focussing on improvements going forward.

USE OF AN EXISTING RELATIONSHIP WAS MORE IMPORTANT THAN CONTACT WITH A SPECIFIC NON-EXECUTIVE OR EXECUTIVE.

## BEFORE ENGAGEMENT: THE COMPANY PERSPECTIVE

### STAY AHEAD OF THE CURVE AND COMMUNICATE WELL

Companies can stay ahead of the curve by [planning a proactive strategy](#) to investor engagement on anti-bribery and corruption issues. This approach helps them understand investors' expectations, build credibility and strengthen relationships with existing and potential shareholders.

Companies can use various modes of communication to do this, including:

- website articles, press releases, regulatory filings that communicate broadly with all stakeholders;
- a letter from the board or its chair elaborating on the board's strategy and its role in the governance of the company (some companies include board letters in their annual reports or proxy statements);
- roadshows and 'investor days' to communicate broadly, with a focus on investors as stakeholders
- letters, emails, conference calls and/or meetings to respond to specific enquiries from investors – meetings in person can work well to build relationships and address sensitive issues during engagement outside of proxy voting season.

### DEMONSTRATE A PROACTIVE APPROACH

Taking a proactive approach requires allocating some resource to monitor a range of high-profile government/anti-bribery and corruption initiatives that may be used by investors to start dialogue.

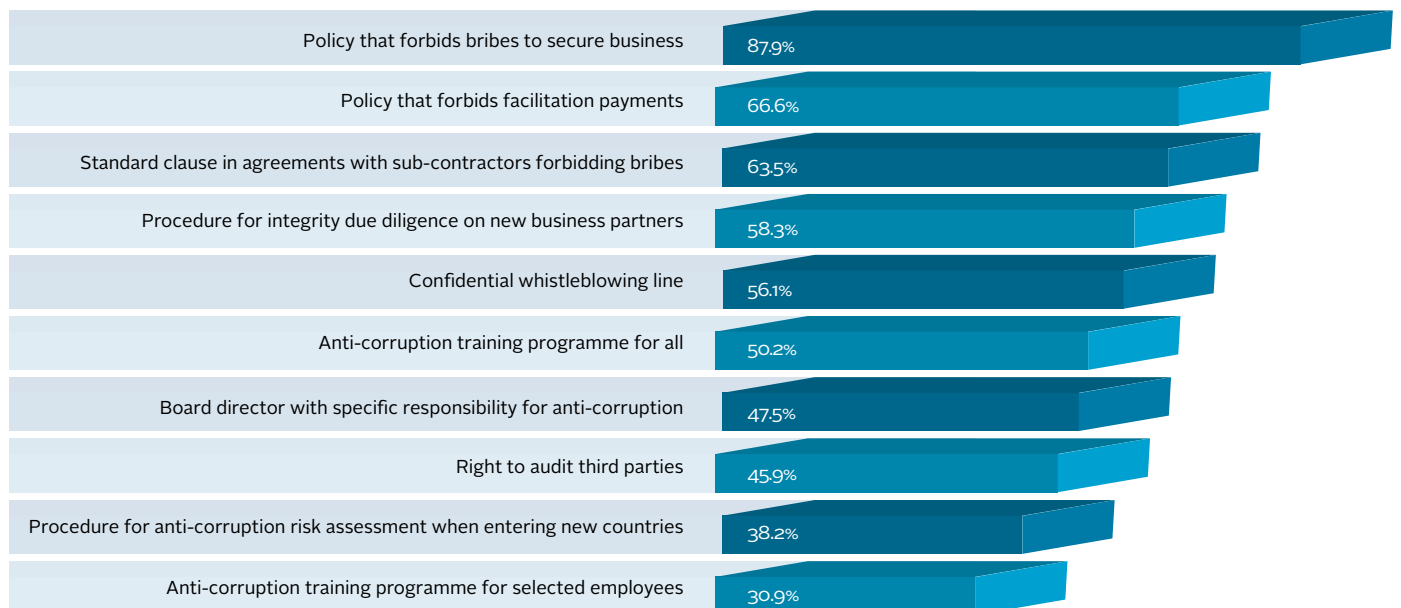
Before engaging with investors on specific enquiries via meetings and calls, companies would:

- **involve the board of directors** in order to embed stakeholder engagement in the company's governance;
- **understand investor expectations** and know how the company's systems compare with best practice (see Appendix A and figure 7);
- **discuss agenda items with investors in advance**, to mutually agree on goals and expectations;
- **establish a timeline for future public disclosure;**
- **communicate to employees about the engagement process, objectives and commitments**, to ensure a well-informed and aligned approach, whoever the investors may speak to.

Figure 7: A Control Risks survey of current anti-bribery and corruption measures

A [2014/2015 Control Risks survey](#) of over 600 companies illustrates the typical anti-bribery and corruption measures covered by company compliance systems.

Studies like this can be used as a benchmark for companies conducting a baseline assessment





## DURING ENGAGEMENT

### CREATING A SUCCESSFUL DIALOGUE

#### ACTIONS TAKEN FOR SUCCESSFUL DIALOGUE: INVESTORS



##### SET CLEAR OBJECTIVES

Set clear objectives for your anti-bribery and corruption engagement, based on company research and your organisation's engagement approach.



##### SELECT THE RIGHT INDICATORS

Select indicators that will reflect progress anti-bribery and corruption policy disclosure as well as systems implementation (and culture as far as is possible).



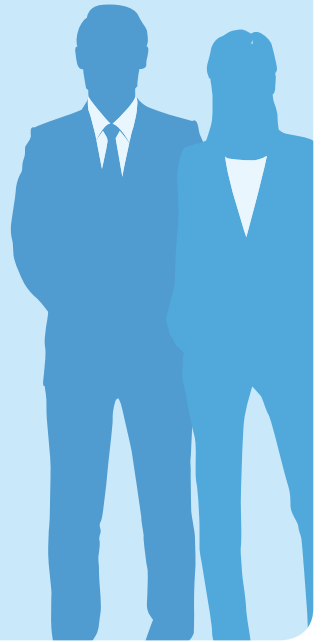
##### EVALUATION METHODOLOGY

Use clear evaluation methodology to help guide dialogue with the target companies and measure progress made against set objectives.



##### COLLABORATE WITH OTHERS

Work with other investors interested in engaging the same companies, to spread the workload. Then regularly exchange insights with them, such as different companies' responses and practices.



#### ACTIONS TAKEN FOR SUCCESSFUL DIALOGUE: COMPANIES



##### KEEP PROGRAMMES UP-TO-DATE

Continuously assess anti-bribery and corruption programme elements to keep them updated and to ensure performance.



##### MAINTAIN COMMUNICATION CHANNELS WITH YOUR BOARD

Make sure the board stays informed of issues investors would like to discuss, meeting agendas and agreed key objectives. This way, feedback from the engagement can directly feed into the company's governance, strategy and performance. Companies should also encourage direct involvement of the board in the engagement dialogue with investors.



## ENGAGEMENT: THE INVESTOR PERSPECTIVE

Investors in the PRI engagement group found that the results generated from benchmarking companies' disclosure, as well as working in collaboration with other investors, was helpful in securing meetings and initiating the dialogue with selected companies. They allocated a minimum of 18-36 months for engagement, with meetings and/or calls ranging from once to several times per year.

The length and coverage of the engagement was dependent on the specific objective of the investor within the broader remit of the coalition. Some held long-term and continuous engagements with target companies in high-risk sectors and/or regions. These shifted between ESG topics including anti-bribery and corruption. Other investors had a clear end point in mind and would engage on specific anti-bribery and corruption issues and request other meetings only if the company's situation had materially changed.

### A HOLISTIC OR TARGETED APPROACH

A range of different types of dialogues took place over the course of the PRI engagement. Some investors chose to include wider ESG issues in their engagement dialogue, such as supply chains, executive pay and climate risk policies. For others the engagement focussed on anti-bribery and corruption issues only.

Investors felt that a wider approach met the engagement objective of gaining a holistic view and encouraging generic changes of operation, governance and risk management. A targeted, anti-bribery and corruption only approach was typically deployed when a material anti-bribery and corruption issue, such as a corruption scandal, needed addressing. One investor interviewed took a hybrid approach:

“Three years is the typical length of engagement, but five companies we engage have long-term and continuous engagement, which shifts from [ESG and other] topic to topic.”

ACTIAM

Across the group involved in the PRI engagement, investors engaged companies on specific aspects of anti-bribery and corruption systems (i.e. disclosure on board level responsibility, a codified anti-bribery and corruption policy, code of conduct, company level risk assessments). The softer area of company-wide culture in handling anti-bribery and corruption issues was also addressed.

Investors usually employed the same engagement approach across regions and sectors, leading with the value proposition of a robust compliance system. At the same time, investors were aware that different diversity of cultural norms needed to be considered in different countries. Sometimes, more time needs to be spent building trust with companies, especially those that are not familiar with investors' requests for disclosure on ESG issues, commonly seen in other markets.

Language was also a barrier to the engagement process at times, with investors requiring additional time to achieve a mutually-constructive tone.

“The Company did not immediately understand what was meant by company level risk assessment. Upon further discussion they understood and explained that they have different risk structures in place, but it is something they never thought would need disclosing.”

Sparinvest

Investors emphasised their commitment to constructive engagement: a critical investor perspective combined with a solid understanding of the companies' chosen approach to implementing anti-bribery and corruption systems.

### THE ELUSIVE MATTER OF COMPANY CULTURE

Internal company culture is difficult to manage and measure for companies themselves, let alone for investors who are, essentially, outsiders. However, some proxy indicators were found to be useful to give investors a sense of what company culture was like.

- **The cost of not paying bribes:** questions regarding this issue can provide insight into how far the company acknowledges and understands what is actually happening.
- **Specific disclosures regarding the whistleblowing process:** this can be a good indication of how well an anti-bribery and corruption system has been implemented.
- **Employee turnover:** either the departure of specific individuals, or a spike in turnover in conjunction with new leadership and a new anti-bribery and corruption programme, can read as evidence of organisational culture change.

“Another telling question is to ask companies what the cost of not paying bribes is. That is, if it has slowed their speed to market. If large multi-nationals respond that this is not an issue as they have strong policies etc., then investors should be sceptical. Answering “yes” to this question can actually make investors more comfortable and can be an indicator that policies are being applied in an open and honest culture.”

Standard Life Investments

### BRIDGE THE KNOWLEDGE GAP BETWEEN STRATEGY AND OPERATIONS

A company responding through a designated person responsible for the specific issue of anti-bribery and corruption was welcomed by investors. However, investors did experience knowledge gaps, such as those between the operational information held by management or regional heads and the strategic oversight which typically resided at board level. One investor adjusted their approach accordingly.

“We typically engage on more than one ESG issue at the same time and at different levels of the company. This usually takes a multi-pronged approach, whereby our Portfolio Managers, Governance team will meet with individuals at the Board level and our Responsible Investment team will meet at the executive and operational level. We consider the consensus between the two to guide our view on the company.”

Standard Life Investments

This was less of an issue if the designated company contact had good access to both the board and to senior management. Investors should still bear such potential knowledge gaps in mind when engaging on anti-bribery and corruption issues.

### TAKING YOUR ENGAGEMENT TO THE NEXT LEVEL

During dialogue with companies, investors involved in the coalition tested different strategies to receive more meaningful information on the effectiveness of corporate implementation practices. Based on these lessons learnt, further requests to consider would be:

- Encourage further disclosure on internal controls, in particular the instances, breakdowns, and outcomes from the whistleblowing mechanism. This was an anti-bribery and corruption area that improved less than other areas. Such disclosure would be seen as a positive indicator of a strong anti-bribery and corruption culture. At large companies, zero instances could be seen as an indicator of a weak 'speaking up' culture and/or poor whistleblowing systems implementation.
- Ask the company whether they have ever lost any contracts because of corruption with "no" being a potential concern, especially if a company operated in a high risk sector and/or region (see figure 8).

“Bribery and corruption or ‘conduct cost’ is a very significant risk to business. Tone from the top is key and the best way to implement this is by assigning responsibility (at a senior level) and using linked remuneration and accountability. A correctly applied code of conduct can also be useful to drive practices, but everyone needs to be held accountable. It’s not just a top level issue.”

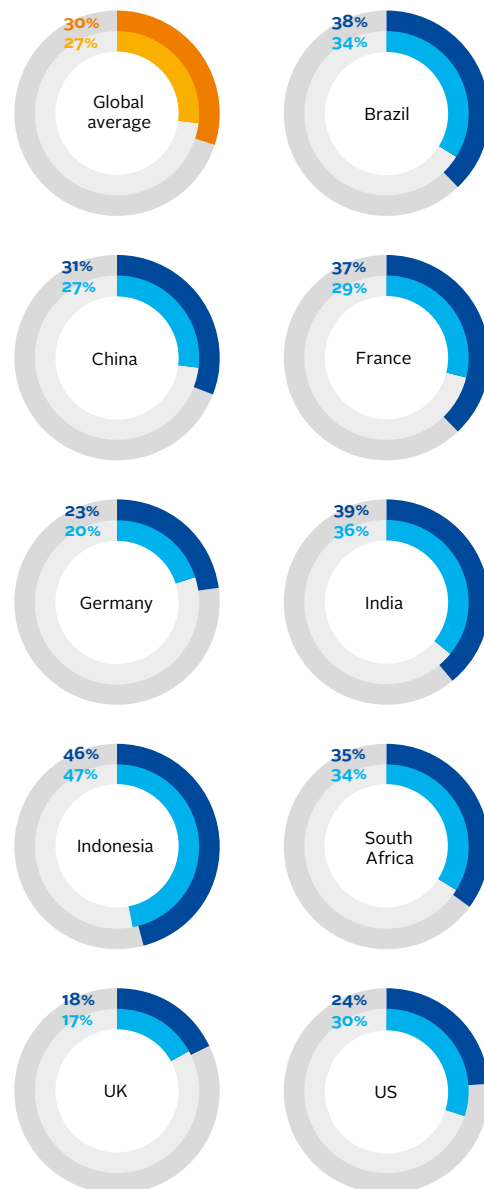
Standard Life Investments

- Ask the company more questions about the effectiveness of the anti-bribery and corruption feedback processes to both management and employees.
- Question if employees could be made accountable for the implementation of good practices by linking positive ESG performance (including on anti-bribery and corruption) to pay.

“Trust is key when it comes to anti-corruption and often it is about reading between the lines.”

ACTIAM

Figure 8: Companies that failed to win contracts in circumstances where the competitor may have paid a bribe. Source: [ControlRisks](#).



CONTROL RISKS 2015

TRANSPARENCY INTERNATIONAL 2011

## DURING ENGAGEMENT: THE COMPANY PERSPECTIVE

### BOARD OVERSIGHT

Involving the board is key to ensure proper oversight on developing and implementing an engagement strategy, as well as putting appropriate anti-bribery and corruption risk management systems in place.

### OPEN LINE OF COMMUNICATION

Companies can offer an open line of communication between investors and a specific designated person who is part of the leadership team. Such a person needs to be well prepared to discuss anti-bribery and corruption matters of importance to investors – being usually the CEO, the Chief Compliance Officer or the Head of Investor Relations.

### OTHER HELPFUL TOOLS

During engagements, companies should consider to:

- present the corporate strategy and anti-bribery and corruption programmes in a way that speak to the needs of investors. Show that anti-bribery and corruption issues are understood in the context of financial (e.g. the impact of fines, the loss of business) and reputational risks.
- develop an executive summary of the link between anti-bribery and corruption issues and financial performance<sup>21</sup> (see appendix D).
- educate top and middle management on the investor exposure of anti-bribery and corruption concerns.

<sup>21</sup> See [http://investors.snclavalin.com/en/investors-briefcase/doc/2013\\_ir-presentation\\_ir-presentation-commitment-to-ethics-excellence\\_385.pdf/](http://investors.snclavalin.com/en/investors-briefcase/doc/2013_ir-presentation_ir-presentation-commitment-to-ethics-excellence_385.pdf/)

## AFTER INITIAL ENGAGEMENT

### FOLLOWING UP AND TAKING IT FURTHER

## FOLLOW-UP ACTIONS FOR INVESTORS



#### TIME-BOUND GOALS

Agree time-bound goals with companies on their requests for disclosure/systems implementation.



#### CONTINUE COMMUNICATION CHANNELS

Continue communication with companies to provide feedback on their progress against investor's expectations.

## FOLLOW-UP ACTIONS FOR COMPANIES



#### KEEP TRACK OF ENGAGEMENT QUERIES

Collect and analyse investors' engagement queries on anti-bribery and corruption issues and update company-wide systems as necessary.



#### SEE THE ISSUE AS A CONTINUOUS PROCESS

Improvements on the issue of anti-bribery and corruption is a continuous process, and not just a one-off commitment. Assessing risks; defining, updating and implementing policies and practices; monitoring progress; and reporting, all contribute to dealing with the issue in a robust way. More methods are suggested by the UN Global Compact management model.



#### COMMUNICATE OUTCOMES AND KEEP UP REPORTING

Communicate outcomes on a regular basis, by, for example, using the UN Global Compact Communication on progress<sup>22</sup> as well the [UN Global Compact Reporting Guidance on the 10<sup>th</sup> Principle](#) and [ICGN guidance](#).

<sup>22</sup> See <https://www.unglobalcompact.org/participation/report/cop> & <https://www.unglobalcompact.org/library/154>

## AFTER INITIAL ENGAGEMENT: THE INVESTOR PERSPECTIVE

Where companies committed to further disclosure or to review their anti-bribery and corruption processes, diligent follow up on agreed specific time bound goals was key for an engagement with tangible outcomes. In order to do this, investors in the PRI engagement group evaluated companies' progress against the adapted TI scoring methodology used in the original benchmarking exercise and kept a record of additional qualitative information through meeting summary notes.

While some investors indicated that the outcome of an engagement on a specific anti-bribery and corruption issue could directly impact their investment weightings, this was rare. More often information gathered from engagement was used to make sure that portfolio managers were better informed of the company's situation. For example, the engagement specialists could feedback to equity teams on companies' performance and responsiveness so that this could have been taken into account on the overall company analysis.

### THE VALUE OF CONTINUED DIALOGUE AND COLLABORATION

Several investors found that dialogue uncovered weaknesses in companies' implementation of their anti-bribery and corruption policies. Successful policy implementation relies on adopting a suitable company culture, which can be much more difficult to measure or even assess from an external perspective. This is why investors may continue to engage over a longer time horizon, to keep abreast of developments.

Continued informal dialogue, after a collaborative engagement has concluded, can be particularly beneficial to keep highlighting the importance of the issue to the company, and spur further improvement.

“Corruption is a global, endemic issue and is a big long term challenge. Even if there are good systems in place, instances will still occur.”

Ethical Council

Several investors also saw the dialogue efforts made in collaboration as a beginning, not as an end, which may lead to further formal coordination with other investors on anti-bribery and corruption issues in the future.

“I see value in collaboration and feel it would be great if the investment community could undertake a wider effort to tackle the issue. Companies do not like being individually targeted and are more open to dialogue with a wider group.”

Ethical Council

## AFTER INITIAL ENGAGEMENT: THE COMPANY PERSPECTIVE

### CONTINUED ANALYSIS

Collection and analysis of investor reactions on anti-bribery and corruption does not cease post-engagement, as continued action allows practices and policies to further improve and develop. For example, investors may require further inclusion of anti-bribery and corruption issues in periodic risk assessments and broader corporate sustainability strategies.

### CONTINUED COMMUNICATION

Companies can communicate outcomes of the dialogue with investors to broader stakeholders in the spirit of greater disclosure and transparency. For example, companies that investors had dialogue with provided a public written statement whereby they declared their commitment to being in compliance with all relevant laws. They also reported on the existence and the elements of their anti-bribery and corruption programme or any updates to it and outcomes achieved. Other companies used investors' feedback to re-assess their performance, define their next steps and make a more comprehensive use of their website to share information.

Companies are encouraged to use all available communications channels to disclose how their policies have been informed and provide more insights on their assessment mechanisms and continuous corrective actions.

## A SIGNAL TO INVESTORS

Currently most companies still view their anti-bribery and corruption system as a tool for managing financial or operational risk in the wake of an incident.<sup>23</sup> However for investors such measures point towards a company's integrity, the strength of their management systems and, more widely, the companies' potential for long-term value creation.

Corporate integrity is difficult to quantify but companies can consider the following actions to increase trust and enhance dialogue with investors.

- **Cultural change from within:** establish and review performance-related integrity targets that can help improve ethical behaviour.
- **Allocation of responsibility and stakeholders:** work with the board and undertake an ongoing review of internal structures; maintain clear lines of management accountability throughout the organisation as well as an open and continuous engagement with key stakeholders.<sup>24</sup>
- **Benchmarking against best practice:** determine progress against best practice using available tools such as the Transparency International's corporate anti-corruption benchmark (Appendix E).
- **Reporting:** increase disclosure and demonstrate the link between company performance and integrity. Best practice would cover the "basic" and "desired" reporting elements outlined in reporting guidance on the UN Global Compact 10<sup>th</sup> Principle<sup>25</sup> (see Figure 9). The International Corporate Governance Network (ICGN) has also [developed guidelines on this area](#).

Figure 9: Excerpt from the UN Global Compact Reporting Guidance on the 10th Principle<sup>26</sup>

Basic reporting elements	Desired reporting elements
<b>Commitment and policy</b>	
<ul style="list-style-type: none"> <li>■ Publicly stated commitment to work against corruption in all its forms, including bribery and extortion</li> <li>■ Commitment to be in compliance with all relevant laws, including anti-corruption laws</li> </ul>	<ul style="list-style-type: none"> <li>■ Publicly stated formal policy of zero-tolerance of corruption</li> <li>■ Statement of support for international and regional legal frameworks, such as the UN Convention against Corruption</li> <li>■ Carrying out risk assessment of potential areas of corruption</li> <li>■ Detailed policies for high-risk areas of corruption</li> <li>■ Policy on anti-corruption regarding business partners</li> </ul>
<b>Implementation</b>	
<ul style="list-style-type: none"> <li>■ Translation of the anti-corruption commitment into actions</li> <li>■ Support by the organisation's leadership for anti-corruption</li> <li>■ Communication and training on the anti-corruption commitment for all employees</li> <li>■ Internal checks and balances to ensure consistency with the anti-corruption commitment</li> </ul>	<ul style="list-style-type: none"> <li>■ Actions taken to encourage business partners to implement anti-corruption commitments</li> <li>■ Management responsibility and accountability for implementation of the anti-corruption commitment or policy</li> <li>■ Human resources procedures supporting the anti-corruption commitment or policy</li> <li>■ Communications (whistleblowing) channels and follow-up mechanisms for reporting concerns or seeking advice</li> <li>■ Internal accounting and auditing procedures related to anti-corruption</li> <li>■ Participation in voluntary anti-corruption initiatives</li> </ul>
<b>Monitoring</b>	
<ul style="list-style-type: none"> <li>■ Monitoring and improvement processes in place</li> </ul>	<ul style="list-style-type: none"> <li>■ Leadership review of monitoring and improvement results</li> <li>■ Dealing with incidents</li> <li>■ Public legal cases regarding corruption</li> <li>■ Use of independent external assurance of anti-corruption processes</li> </ul>

<sup>23</sup> See <https://www.controlrisks.com/webcasts/studio/2015-GENERAL/corruption-report/corruption-survey-2015.pdf>

<sup>24</sup> See <http://mneguidelines.oecd.org/text/>

<sup>25</sup> See <https://www.unglobalcompact.org/what-is-gc/mission/principles/principle-10> and [https://www.unglobalcompact.org/docs/issues\\_doc/Anti-Corruption/UNGC\\_AntiCorruptionReporting.pdf](https://www.unglobalcompact.org/docs/issues_doc/Anti-Corruption/UNGC_AntiCorruptionReporting.pdf)

<sup>26</sup> An updated version of the reporting guidance will be published in 2017



# CASE STUDIES

The following case studies are examples of dialogue undertaken by investors within the collaborative engagement on anti-bribery and corruption issues coordinated by the PRI.

## A SUCCESSFUL ENGAGEMENT WITH A GLOBAL ENGINEERING SERVICES' COMPANY

**ACTIAM**

“The company has undoubtedly come a very long way in a relatively short period of time. The calls also continue to leave us with the impression that [because of] the ambitious targets of the CEO, to be an ethical role model, this company could indeed outperform its peers on anti-bribery and corruption practices within [sic] long.”

Figure 10: Improvements seen during the engagement<sup>27</sup>

Company	Sector	Points increase	2013 score	2015 score	2013 score %	2015 score %
Engineering Services Company	Construction/Engineering	7	8.5	15.5	47%	86%

ACTIAM is a Dutch responsible investor and asset manager with €52bn assets under management (December 2015). ACTIAM engages with approximately 200-250 companies a year, both individually and collaboratively.

The investor’s approach to engagement is split between responsive engagement (e.g. responding to controversies, negative screening) and proactive engagement (e.g. asking a company to achieve sector best practices around a specific issue). Engagement is not sector-targetted, but based around climate, water and land issues. Their engagement on anti-bribery and corruption is carried out on a case-by-case basis using compliance with the UN Global Compact principles to help determine areas of weakness.

In 2012, ACTIAM decided to lead on the dialogue with a global engineering services company in their portfolio due to anti-bribery and corruption issues with financial repercussions, such as:

- formal charges made against former employees;
- share price falling significantly;
- lawsuits filed against the company;
- contracts being lost including a suspension of the right to bid and work on projects financed by the World Bank, and a suspension of the right to receive funds from any loan made by the World Bank.

Despite these allegations on bribery/corruption, the focus of the dialogue was very much on improvements going forward.

Steps taken by the investor included:

- a letter sent to the CEO, which encouraged best practice disclosure regarding the effectiveness of the company’s new anti-bribery and corruption programmes, including disclosure of the scope, frequency, and results of internal audit and monitoring procedures;
- Six to seven further calls with the company’s Chief Compliance Officer, Compliance Team and Investor Relations department over the following three years.

Considerable improvements in anti-bribery and corruption policies and procedures were made across a number of areas by the company during the course of the engagement, including the explicitly forbidding facilitation payments and provision of a whistleblowing hotline. ACTIAM is still encouraging the company to provide usage figures of the compliance hotline after the formal engagement process finished in 2015.

<sup>27</sup> See Appendix A for a ranking of all companies scores.

## ENGAGING WITH CHINESE COMPANIES: TAKING A LONGER VIEW

ETHICAL COUNCIL

“If companies want to become global brands then they need to put these compliance systems in place and work on their reporting, transparency and trust building.”

Figure 11. Scores from Chinese companies selected for engagement<sup>28</sup>

Company	Sector	Points increase	2013 score	2015 score	2013 score %	2015 score %
Petro-chemical (China)	Oil & Gas	5.5	5	10.5	28%	58%
Oil (China)	Oil & Gas	2.5	3.5	6	19%	33%
Bank (China)	Financials	0	0	0	0%	0%
Bank (China)	Financials	0	0	0	0%	0%

The Ethical Council conducts reactive and proactive engagements, working alongside service providers and covering a number of topics. It engages with approximately 300 companies on an annual basis, which equates to approximately 10% of their investment universe. Usually, they choose to focus on their largest holdings.

Anti-bribery and corruption is covered in almost all of the Ethical Council's engagements and it often use engagement on anti-bribery and corruption policies and procedures systems as 'a litmus test', to reveal where a company stands on the issue of governance.

The Ethical Council chose four Chinese companies from the target list to engage with, because they were located in a region, which is increasingly expected to be held in portfolios.

A letter was sent to the respective chairman (not the CEO) of each company, with investor relations copied in. The chairman was considered the most appropriate representative of shareholders for Chinese companies even if a direct response from chairperson was considered unlikely.

The approach taken with the Chinese companies was proactive, although previous issues and allegations of corruption were taken into account. The Ethical Council began the dialogue by presenting the value of good compliance systems, as this increasingly resonates with companies across the globe.

Gaps in anti-bribery and corruption procedures and processes for the responsive Chinese companies were identified. This was particularly the case in areas to do with reporting.

Engaging with companies already embroiled in corruption issues was particularly challenging as they were more hesitant to dialogue, especially when focusing on legal issues. Even in the case of organisations who had no reported or alleged incidents, anti-bribery and corruption was found to be a sensitive topic.

Some anti-bribery and corruption improvements did take place over the engagement period in the two oil and gas companies, in both cases related to having a publicly-stated commitment to anti-corruption and having clear reporting lines from the board level to employees for example. This may have been because they had more experience in dealing with and meeting foreign shareholders, and handling the engagement process and investor expectations. Of the other two financial companies, one met with the lead investor and the other did not respond to the investor's request for dialogue. Neither disclosed public information on their policies and practices that would reflect any change in score in the quantitative framework.

Although the engagements were conducted in English, having a Chinese speaking person on the call was helpful, and even increased the chance of success.

<sup>28</sup> See Appendix A for a ranking of all companies scores.

## STRENGTHENING ANTI-BRIBERY AND CORRUPTION SYSTEMS, WHILE RECOGNISING CULTURAL DIFFERENCES



“They take anti-corruption very seriously, with a strong stance and training in place. However culture and its tangible measurement is an area that we wish to explore further with the company.”

Figure 12. Score from a Japanese company in the PRI engagement

Company	Sector	Points increase	2013 score	2015 score	2013 score %	2015 score %
Japanese Telecoms	Telecoms	10	4.5	14.5	25%	81%

Sparinvest is a global asset manager based in Denmark, with €9.5bn AUM (June 2015). It selects companies for engagement based on a range of criteria (engagement topic, company size and resources, etc.), however it is ultimately materiality which determines priorities. Past issues and controversies can cause a company to be considered for engagement, with the aim of understanding how the company is responding to and addressing these weaknesses.

Sparinvest has approximately 250 companies in active funds, and it votes on these holdings. If it votes against management, this would usually involve some dialogue with the company. Dialogue on voting issues usually take place with approximately 90-100 companies annually. In addition to this, the investment manager carries out approximately 25 selective engagements per annum. Half of these are conducted by a service provider who engages on normative breaches. The rest are done by the investment manager and range from basic, low level fact-finding issues to wider-ranging discussion on a variety of topics.

Between 2013–2015, Sparinvest held a dialogue with the management of a telecoms company headquartered in Japan, with the aim of improving both the substance and the transparency of anti-bribery and corruption strategies, policies, and systems. Through meetings and regular communications with the management, the investor encouraged the company to improve on a number of indicators, including:

- greater disclosure around whistleblower policies and incidents;
- the application of anti-bribery and corruption policies to contractors, subcontractors, and suppliers;
- internal risk assessments and regular monitoring of the internal anti-bribery and corruption programme.

During the engagement, the company issued, for the first time, an annual report with information on the integration of its sustainability and corporate social responsibility practices, as well as its first anti-bribery handbook for its increasingly global workforce, covering such risks as facilitation payments. Most significantly, the company issued a clear statement of zero tolerance of corruption.

Other areas of anti-bribery and corruption engagement were initially met with cultural obstacles.

- **The company did not immediately understand what was meant by ‘company level risk assessment’.** Upon further discussion, they explained that they have different risk structures in place, but it is something they never thought would need disclosing. While they are improving in this regard, there needs to be more of a holistic view from the holding company.
- **The company’s code of conduct for contractors, subcontractors and suppliers does not require contractual obligation.** Although the company did have a strong policy for third parties in both Japanese and English, it holds no contractual obligation. On this point, the company explained that, much like other institutional investors, they believe in “engagement, not exclusion” with regards to their supply chain.
- **The framework used appeared to apply a ‘western’ mindset.** The investor found the TI research and scorecards helpful in opening up the dialogue with the company. However the terminology used in the framework did not fully resonate with the company. For example, ‘zero-tolerance’ is deemed to be a negative statement (implying that something is wrong), which grates against the Japanese norm of preferred strong, positive statements. Nevertheless, the use of good practice examples allowed cultural differences to be explored. The investor was successful in convincing the company that a clear zero tolerance statement regarding anti-bribery and corruption was important from an international perspective, as a strong indication of governance rigour.

# APPENDIX A

## ACHIEVEMENTS<sup>29</sup> DURING THE PRI-COORDINATED ENGAGEMENT

Per indicator, 0 points were awarded for “no” (when a company did not meet the indicator), 1 point was awarded for “yes” and 0.5 points were awarded where necessary

for partially meeting the indicator's requirements. Points increase shows the difference between how the indicator scored in 2013 and 2015.

A ranking of how indicator scores improved over the period of the PRI-coordinated project

Ranking based on improvement	Indicators	Points increase	2013 score	2015 score
1	Does the company have a designated person at board level responsible for anti-corruption systems?	12.5	11	23.5
2	Is there a policy that explicitly forbids facilitation payments?	12	10.5	22.5
3	Does the company's code of conduct / anti-corruption policy explicitly apply to contractors, subcontractors and suppliers?	10.5	12.5	23
4	Does the company undertake risk assessment for each business line?	9.5	14	23.5
5	Does the company's code of conduct / anti-corruption policy explicitly apply to all agents and other intermediaries?	8.5	12.5	21
6	Are there clear reporting lines down from board level, via for example the Chief Compliance Officer, to employees?	8.5	15	23.5
7	Are suppliers contractually obliged to uphold the company's anti-bribery standards? - any evidence showing contractual obligation - i.e. supplier code of conduct,	8.5	6.5	15
8	Does the company have an anti-corruption training programme for its employees in place?	8	18.5	26.5
9	Does the company provide channels through which employees can report potential violations of policy or seek advice (e.g. whistleblowing) in confidence?	7.5	20.5	28
10	Does the company have a publicly stated commitment to anti-corruption?	7	20.5	27.5
11	Does the company leadership demonstrate support for anti-corruption? E.g. is there a statement in corporate citizenship report or in public pronouncements to integrity?	7	20	27
12	Does the company prohibit retaliation for reporting the violation of a policy?	6.5	21	27.5
13	Does the company's code of conduct / anti-corruption policy explicitly apply to all employees?	6	24.5	30.5
14	Does the company have a policy defining appropriate/ inappropriate gifts, hospitality and travel expenses?	5.5	20.5	26
15	Does the company carry out regular monitoring of its anti-corruption programme?	5.5	19	24.5
16	Does the company report regularly on the operation of its whistleblowing policy? (i.e. number of complaints, times whistleblowing hotlines are used, dismissals etc.)	4.5	4	8.5
17	Does the company have a policy prohibiting political contributions or if it does make such contributions, are they fully disclosed?	3.5	14.5	18
18	Does the company publicly commit to be in compliance with all relevant laws, including anti-corruption laws?	1	27	28

<sup>29</sup> Indicators are based on 2012 TRAC methodology, see also TI's Business Principles for Countering Bribery report.

## A comparison of companies' scores from the PRI coordinated project

Rank	Region	Sector	Points increase	2013 score	2015 score	2013 score %	2015 score %
1	France	Utilities	10.5	4	14.5	22%	81%
2	Japan	Telecoms	10	4.5	14	25%	78%
3	Australia	Basic materials (Mining)	9	7.5	16.5	42%	92%
4	Spain	Financials	9	6	15	33%	83%
5	Australia	Financials	9	4	13	22%	72%
6	France	Aerospace/Defence	8	5	13	28%	72%
7	Canada	Construction/Engineering	7	8.5	15.5	47%	86%
8	Israel	Pharma	6.5	7.5	14	42%	78%
9	Germany	Industrials	5.5	8.5	14	47%	78%
10	China	Oil & Gas	5.5	5	10.5	28%	58%
11	UK	Consumer (Non-cyclical)	5	11	16	61%	89%
12	Sweden	Oil & Gas	5	10	15	56%	83%
13	US	Aerospace/Defence	4.5	11.5	16	64%	89%
14	Australia	Basic Materials (Chemicals)	4	12	16	67%	89%
15	US	Consumer Services (Retail)	3.5	11	14.5	61%	81%
16	Sweden	Financials	3.5	8	11.5	44%	64%
17	Italy	Aerospace/Defence	3	11.5	14.5	64%	81%
18	US	Aerospace/Defence	2.5	6	8.5	33%	47%
19	Japan	Industrials	2.5	5.5	8	31%	44%
20	China	Oil & Gas	2.5	3.5	6	19%	33%
21	UK	Industrials	2	15.5	17.5	86%	97%
22	UK	Financials	2	15	17	83%	94%
23	France	Oil & Gas Services	2	12	14	67%	78%
24	UK	Financials	1.5	11	12.5	61%	69%
25	Italy	Oil & Gas	1	17	18	94%	100%
26	Australia	Construction/Engineering	1	17	18	94%	100%
27	US	Consumer Goods	0.5	4	4.5	22%	25%
28	Australia	Basic materials (Mining)	0.5	4	4.5	22%	25%
29	UK	Pharma	0	18	18	100%	100%
30	UK	Financials	0	16	16	89%	89%
31	China	Financials	0	0	0	0%	0%
32	China	Financials	0	0	0	0%	0%

# APPENDIX B

## UK BRIBERY ACT ADEQUATE PROCEDURES

The six principles covered by the UK Ministry of Justice guidance can be summarised as follows:

- 1. Proportionate procedures - Bribery prevention procedures should be:**
  - Proportionate to the risks faced and the size and complexity of the business
  - Clear, practical, accessible, properly implemented and enforced
- 2. Top-level commitment - Top-level management should:**
  - Take responsibility at the board level for bribery prevention
  - Foster a zero-tolerance culture toward bribery
- 3. Risk assessment - The risk assessment should:**
  - Consider both internal and external risks
  - Be performed periodically and documented
- 4. Due Diligence - Due diligence should be:**
  - Conducted on parties performing services for or on behalf of a business
  - Proportionate and risk-based
- 5. Communication - Communication and training:**
  - Should ensure that bribery prevention policies and procedures are embedded and understood throughout the business
  - May include external communication and a secure, confidential and accessible “speak up” procedure
- 6. Monitoring and review - Regular monitoring and review should:**
  - Evaluate the effectiveness of current bribery prevention procedures
  - Identify and implement necessary improvements

For more information, visit <http://www.ey.com/UK/en/Services/Assurance/Fraud-Investigation---Dispute-Services/UK-Bribery-Act---Adequate-procedures-guidance>

# APPENDIX C

## US FCPA – EXTRACT FROM THE DOJ FCPA GUIDANCE MEMO<sup>30</sup>

“Implementation of an effective compliance and ethics program, the criteria for which will be periodically updated and which may vary based on the size and resources of the organization, but will include:

- Whether the company has established a culture of compliance, including an awareness among employees that any criminal conduct, including the conduct underlying the investigation, will not be tolerated;
- Whether the company dedicates sufficient resources to the compliance function;
- The quality and experience of the compliance personnel such that they can understand and identify the transactions identified as posing a potential risk;
- The independence of the compliance function;
- Whether the company’s compliance program has performed an effective risk assessment and tailored the compliance program based on that assessment;
- How a company’s compliance personnel are compensated and promoted compared to other employees;
- The auditing of the compliance program to assure its effectiveness; and
- The reporting structure of compliance personnel within the company.”

More detailed guidance on implementing an FCPA compliance system can be download from the following link <http://fcpcompliancereport.com/2015/11/the-fcpa-guidance-still-going-strong-at-three/>.

<sup>29</sup> See <https://www.justice.gov/opa/file/838386/download>.

# APPENDIX D

## EXTRACT FROM SNC-LAVALIN: JOURNEY TO ETHICS EXCELLENCE NOVEMBER 2015

This slide (which is publically available from [SNC-Lavalin's website](#)) provides an example of how a company can consider the financial implications of a corruption crisis and can also provide the foundation for the business case for making improvements.

### The 2012 Crisis Had Consequences

- › Loss of reputation
- › Charges were laid against former employees
- › Share price fell drastically
- › Lawsuits were filed against the company
- › Loss of contracts and revenue

And, with regards to the World Bank:

- › Suspension of the right to bid and work on projects financed by the World Bank, and suspension of the right to receive funds from any loan made by the World Bank
- › Cross-debarment of projects funded by AfDB (African Development Bank), ADB (Asian Development Bank), IADB (Inter-American Development Bank) and EBRD (European Bank for Reconstruction and Development).
- › Term: 10 years (which can be reduced to 8 years)
- › External monitoring by an independent monitor reporting directly to the World Bank



“Our ambition became to be the global benchmark against which other companies measure themselves.”



Further evidence from SNC-Lavalin

YEAR	COMPANY ANTI-BRIBERY AND CORRUPTION SYSTEM IMPLEMENTATION
2013	<ul style="list-style-type: none"> <li>■ New Chief Compliance Officer Function</li> <li>■ Global Compliance Organization Fully Ramped Up</li> <li>■ New 90-Day Amnesty Program</li> <li>■ New Business Partners Policy</li> <li>■ External Validation/Monitoring by Compliance Monitor Begins</li> <li>■ New Anti-Corruption Manual Published</li> <li>■ New Global Compliance In-Person Training Program</li> <li>■ New Business Partner Compliance Due Diligence IT</li> </ul>
2014	<ul style="list-style-type: none"> <li>■ New Gifts &amp; Hospitality Procedure</li> <li>■ New Facilitation Payments Procedure</li> <li>■ Authorization by Autorité des marchés financiers (AMF) to bid on public contracts in Québec, Canada</li> <li>■ New Political Contributions Policy</li> <li>■ Completion of Ethics and Compliance Risk Assessment of all Business Units, Sectors and Corporate Functions</li> <li>■ Ethics and Compliance becomes part of the Compensation Process for Management</li> </ul>
2015	<ul style="list-style-type: none"> <li>■ New Duty to Report Procedure</li> <li>■ Completion of the Second Ethics and Compliance Risk</li> <li>■ Assessment of all Business Units, Sectors and Corporate Functions</li> <li>■ New Anti-corruption Policy</li> <li>■ New Hiring of Government</li> <li>■ Officials Procedure</li> <li>■ New Antitrust Policy</li> </ul>

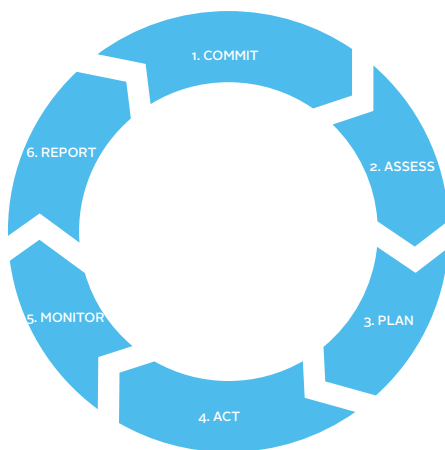
# APPENDIX E

## EXCERPT FROM TRANSPARENCY INTERNATIONAL'S CORPORATE ANTI-CORRUPTION BENCHMARK

### THE BUSINESS INTEGRITY FRAMEWORK

The Corporate Benchmark covers the following key topics and are reported back to the company along the lines of TI's six step Business Integrity Framework.

#### THE BUSINESS INTEGRITY FRAMEWORK



1. Commit to an anti-corruption programme 'from the top'
2. Assess the current status and risk environment
3. Plan the anti-corruption programme
4. Act on the plan
5. Monitor controls and progress
6. Report internally and externally on the programme

#### KEY TOPICS

The following key topics are incorporated within the six modules and benchmark performance in each of these is reported back to the company:

- Publicly stated commitment to a policy of prohibition of bribery
- Commitment to implementing and anti-bribery programme
- Consistency with laws
- Conflicts of interest
- Political contributions
- Charitable contributions
- Sponsorships
- Facilitation payments
- Gift, hospitality, & travel expenses
- Controlled entities
- Joint ventures & consortia
- Agent, lobbyist & other intermediaries
- Contractors & suppliers
- Risk assessment
- Leadership ('Tone from the top')
- Organisational
- Human resources
- Communications
- Public reporting
- Country-by-country reporting
- Education & training
- Channels (Reporting concerns & seeking advice)
- Internal controls
- Monitoring & review
- Assurance & certification

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## The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance issues and to support signatories in integrating these issues into investment and ownership decisions.

The six Principles were developed by investors and are supported by the UN. They are voluntary and aspirational, offering a menu of possible actions for incorporating ESG issues into investment practices. In implementing the Principles, signatories contribute to developing a more sustainable global financial system.

More information: [www.unpri.org](http://www.unpri.org)



## The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

### United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: [www.unepfi.org](http://www.unepfi.org)



### UN Global Compact

Launched in 2000, the United Nations Global Compact is both a policy platform and practical framework for companies that are committed to sustainability and responsible business practices. As a multi-stakeholder leadership initiative, it seeks to align business operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to catalyse actions in support of broader UN goals. With 7,000 corporate signatories in 135 countries, it is the world's largest voluntary corporate sustainability initiative.

More information: [www.unglobalcompact.org](http://www.unglobalcompact.org)

