# Reducing corruption risk in global value chains

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Global operations of companies often involve complex layers of business partnerships in countries around the world. Companies that strive for sustainability already know very well that most of their operations' impact happens in these supply and distribution chains, often in countries far removed from the corporate headquarters. That is true when it comes to environmental and labor standards but it is equally true in the area of fighting corruption. In today's world, value chains – i.e. networks of suppliers, distributors, and other business partners – often stretch across countries with varied legal structures, enforcement mechanisms, and business cultures. Therefore, building global value chains that are accountable and guided by ethical principles remains a vital challenge.

Crucially, having value chains where corruption is kept in check is not only a "feel-good" aspiration for corporations. More vigorous enforcement of legislation such as the U.S. Foreign Corrupt Practices Act (FCPA) or the 2010 UK Bribery Act is driving the emergence of a global standard that makes corruption abroad not only ethically stigmatized but also legally punishable. These laws require more robust integration throughout the corporate structure and put the onus on companies to ensure that their suppliers, distributors, and agents are compliant.

There are many ways to ensure that corruption risks in value chains are mitigated. They range from vetting potential business partners and implementing education and training, to putting in place proper reporting procedures and whistleblowing mechanisms. Many corporations already started to implement anti-corruption programs that extend down through their value chains. For instance, Siemens improved its anti-corruption compliance after the discovery of massive violations through putting in place rigorous new controls to double-check new vendor approvals, high-risk payments, and expenses for gifts and entertainment. The company also developed new compliance and audit functions, and trained thousands of employees throughout the organization on the revised anti-bribery policies. Yet, more remains to be done. According to the *2012 Kroll FCPA Benchmarking Report*, "despite significant investment in anti-bribery compliance, the majority of large-company corporate compliance officers are concerned about their exposure to bribery risks."

Kroll, a global consultancy specializing in risk mitigation and response, interviewed 139 senior U.S. corporate compliance executives from companies in various industries ranging in size from $100 million to more than $10 billion in revenues a year. The results revealed that many compliance professionals feel the risk remains substantial, especially in the pharmaceutical industry where 54% of compliance executives participating in Kroll's survey said that their company was highly exposed to risk related to anti-bribery regulations. That is significantly higher than the corresponding share of responses in energy (33%), IT/telecom (25%), and financial services (8%).

What is more, most believe that the risk is here to stay: 50% of respondents think that their companies' exposure to bribery risk has increased, and 35% see it as holding steady over the last several years. Kroll's analysis of the survey responses against FCPA compliance best practices also reveals that handling third party relationships within corporate value chains is the largest contributor to corruption risk. Although nearly all respondents (99%) said that they had anti-bribery provisions for employees in their corporate codes of conduct, only 73% said they had such provisions for third parties. That creates a dangerous gap given that about three quarters of U.S.

companies report they partner with foreign companies – hundreds and even thousands of them – while conducting business abroad.

The prevailing feeling of persistent third-party risk testifies to the fact that top-down compliance efforts of companies are not enough. Instead, to effectively lower the corruption profile of current and potential business partners, companies should encourage them to be more proactive in instituting good governance and anti-corruption practices from the bottom up. Corporate compliance efforts will truly succeed only when these local businesses improve their own compliance and understand that not being corrupt is a key requirement for participating in global value chains.

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