

Five forces that will reshape the global landscape of anti-bribery and anti-corruption



*Our five predictions
for the next five years
and beyond*



Corruption remains the single biggest issue facing today's society

Bribery and corruption – often defined as abuses of power by people in positions of authority – are not new. In fact, they've been with us ever since humans began to organise into recognisable societies. And they're certainly still going strong: it's estimated that more than US\$1 trillion is paid each year in bribes globally, and that US\$2.6 trillion is lost to corruption¹. That's 5% of global GDP – and the true figure is probably even higher.

Against this background it's not surprising that tackling corruption is the focus of massive effort and an ever-expanding body of rules and regulations across the world. It's now 19 years since the OECD launched its initiative to bring a harmonised approach to the battle against corruption, and five years since the UK's Bribery Act came into force². Many other countries have also taken definitive steps forward to start tackling corruption risk in recent years, including France, South Korea, Brazil, Mexico, China and Argentina. But despite all of this activity, corruption remains arguably the single biggest issue facing societies worldwide.

The importance of addressing it is underlined by the clear correlation between corruption and poverty. Of the over 7 billion people alive today, over 6 billion live in countries where corruption is endemic³ – with Transparency International's latest *Corruption Perceptions Index*⁴ citing "a vicious circle between corruption, unequal distribution of power in society, and unequal distribution of wealth". What's more, global migration and terrorism⁵ mean the effects of this cycle are now closer to home than ever before for Western countries.



A shared responsibility for making a difference...

In light of this situation, it's not surprising that dealing with corruption is an issue that's continuing to rise up the agenda of governments, businesses and civil society. Against this background, we examine the themes shaping the global anti-bribery and anti-corruption landscape over the coming five years and beyond. The topography of this future landscape matters to us all.

In our view, corporations and their senior leaders have the ability – indeed an economic as well as moral obligation – to help tackle these issues, by taking steps to prevent corruption and in confronting corruption wherever they see it arising. By doing this, they won't just be seen as good corporate citizens, but can make a real and positive difference to the world as a whole.

...and rebuilding public trust

Taking determined action will also do something else: help to close the global trust deficit, to which corruption and inequality are major contributors – a fact highlighted in the *World Economic Forum's Global Risks Report*⁶. Among populations worldwide, growing disparities in wealth are fostering disillusion and anger. And this anger now has a voice, through social media and NGOs.

At the same time, as our *20th Annual Global CEO Survey*⁷ confirms, there's a growing awareness that global corporations are accountable to an expanding array of stakeholders, including societies and local communities. Back in 2013, 37% of global CEOs worried that lack of trust in business would harm their company's growth. This year the figure was 58%.



Rising to the challenge

Given the profound harm that corruption inflicts on both citizens and societies, we believe that tackling it ranks as perhaps the biggest single challenge for all of us. Dealing with it demands action that goes way beyond developing a compliance programme and including a line item on a risk register.

Let us look at how the world can rise to this challenge. It's down to all of us to work together to make this happen.



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¹ Source: <https://www.oecd.org/cleangovbiz/49693613.pdf>

² Source: <http://pwc.blogs.com/legal/2016/07/the-bribery-act-5-years-on.html>

³ Source: <https://www.transparency.org/cpi2015/>

⁴ Source: http://www.transparency.org/news/feature/corruption_perceptions_index_2016

⁵ Source: <https://www.gov.uk/government/news/anti-corruption-summit-aims-to-secure-global-commitment-against-corruption>

⁶ Source: <https://www.weforum.org/reports/the-global-risks-report-2017>

⁷ Source: <http://www.pwc.com/gx/en/ceo-agenda/ceosurvey/2017/gx.html>

Our five predictions for the next five years and beyond

1

Enforcement will continue to evolve and spread geographically

In the world's biggest economy – the US – 2016 was a record year for anti-bribery resolutions and penalties⁸, an upward trend that's being mirrored in other jurisdictions globally. We believe that anti-corruption enforcement will continue to expand and evolve globally in the coming years – and that this well-established direction of travel will be unaffected by the changing political landscape, including the rise of populism.

Traditionally, Western countries have tended to lead the way, with – for example – the UK making growing use of the US-style Deferred Prosecution Agreements (DPAs) it adopted in the Bribery Act 2010, and France now enacting its own anti-bribery law “Sapin 2”. But enforcement of anti-bribery and anti-corruption regulation is now spreading rapidly beyond these jurisdictions, as more territories start to take the problem seriously, and as large economies such as China join the US in extending the reach of their enforcement beyond their own borders. Latin American countries are also increasingly active and making growing use of DPAs.

As well as reflecting governments' specific responses, the advancing globalisation of enforcement also mirrors the *megatrends*⁹ reshaping economies and societies worldwide – most notably the ongoing shifts in economic power, which are helping to foster ever closer international collaboration between enforcement agencies. Rolls-Royce's agreement to pay £671m to settle bribery allegations¹⁰ followed close cooperation between the national agencies of Brazil, the US and UK. And when engineering conglomerate Odebrecht agreed to pay a record FCPA settlement totalling US\$3.6 billion¹¹ over illegal payments made in about 12 countries, the case was reported to have involved some 13 agencies around the world. Still more agencies are now following up related matters, including allegations of bribery involving senior politicians (with some former presidents among them) that are developing across Latin America.

Liaising across borders in this way not only extends enforcement agencies' reach, but also makes them more powerful. So it's increasingly in a corporation's interest to play ball with them through more open cooperation and strategies such as voluntary self-reporting. For example, Rolls-Royce obtained a £240m discount on its fine for ‘extraordinary cooperation’¹². And the carrot is accompanied by a stick, because if a company fails to cooperate with the authorities then the penalties are potentially severe. The overall effect is to encourage corporations to be more open, a change which also reflects a growing awareness that eradicating corruption is in everyone's interests – including governments and wider society, as well as agencies and corporations themselves.


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⁸ Source: <http://www.freshfields.com/uploadedFiles/SiteWide/Campaigns/GI/content/GI%20ABC%20guide%202016.PDF>

⁹ Source: <http://www.pwc.co.uk/issues/megatrends.html>

¹⁰ Source: <http://www.telegraph.co.uk/business/2017/01/16/rolls-royce-pay-almost-700m-settle-bribery-corruption-claims/>

¹¹ Source: <https://www.law360.com/articles/875299/odebrecht-braskem-to-pay-3-6b-in-record-fcpa-case>

¹² Source: <http://media.investis.com/R/Rolls-Royce/download/2017/press-release/English-external-release.pdf>

2

Societal action will be more effective than toothless compliance regimes or unenforced regulation

Popular anger over inequality and corruption has been given a voice in recent years by the rise of social media. It's been further fuelled by events ranging from the global furore over the Panama Papers and emissions "diesel devices" in cars, to the impeachment of the South Korean president on corruption charges¹³. And most recently we saw thousands of Romanians take to the streets to force their government to back down on plans to water down anti-corruption laws¹⁴.

What's clear is that populations are no longer willing to stay silent in the face of corrupt behaviour. People suffering the consequences of corruption now have not only the motivation but also –increasingly – the means to expose, denounce and confront wrongdoing, often with the support of NGOs and the press. At the same time, corruption is becoming far less acceptable in many countries: witness India's www.ipaidabribe.com website and zero rupee note.

These types of public campaigns bring profound implications, and have spread to other countries. Experience shows that when it comes to embedding ethical values and changing behaviour across an organisation, culture trumps unenforced rules and regulations. And the threat of public exposure is more likely than an enforcement action to push leaders and workforces to embrace cultural change.

These impacts are especially clear in industries that have suffered significant fines for conduct breaches, such as energy, financial services and pharmaceuticals. In such sectors, there's a clear risk of fines coming to be seen as a cost of doing business. But if a company's reputation becomes so tarnished that enterprise value decreases as investors pull out while customers start walking away, this has profound effects at the top of the business. What's more, the public increasingly expects corporations to behave in line with standards much higher than just complying with the law, meaning societal pressure tends to push businesses to go beyond the legal minimum and to do 'what's right' because 'it's the right thing to do', not just because the rule book says so.

In many cases, the relatively greater power of societal action also reflects weaknesses in the political will of a government coupled with non-existent or sporadic enforcement. While laws and regulations may have been on the books for some time, they're often only just starting to be properly enforced and resourced. So to play their full part in driving out corruption, laws must have teeth – and be enforced aggressively with unwavering commitment (financial, political and moral) from governments.



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¹³ Source: <http://time.com/4596318/south-korea-president-impeachment-park-geun-hye-corruption-choi-soon-sil-protests/>

¹⁴ Source: <https://www.theguardian.com/world/2017/feb/05/romanian-government-scrap-corruption-decree-as-opposition-continues>

Technology will enable automated and preventative compliance

Imagine you're the CEO of a global corporation, and you're considering undertaking a major transaction or expansion into a new market. You know technology is continually advancing and evolving, so you ask yourself: "How can emerging technologies help me to make sure this is the right decision?" You also wonder how you might identify and address the strategic threats as well as key risks more quickly and consistently than before. Clearly, an anti-bribery and corruption compliance strategy is embedded within these questions – but only as one risk element integrated with many others.

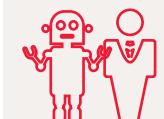
Zeroing in specifically on that risk element, the next five years will see artificial intelligence (AI) and automation technologies deliver dramatic improvements in the speed, efficiency and effectiveness of anti-corruption compliance strategy and processes. And they'll enable anti-corruption compliance that's not only faster but also more insightful, providing rapid warning of problems and enable management to take action quicker to mitigate risk.

In achieving this, a key form of AI will be real-time intelligence, which combines the complementary capabilities of humans and computers to get the best out of both. CEOs are alive to these possibilities: 52% of Global CEOs are exploring the benefits of humans and machines working together, according to our latest *Global CEO Survey*.

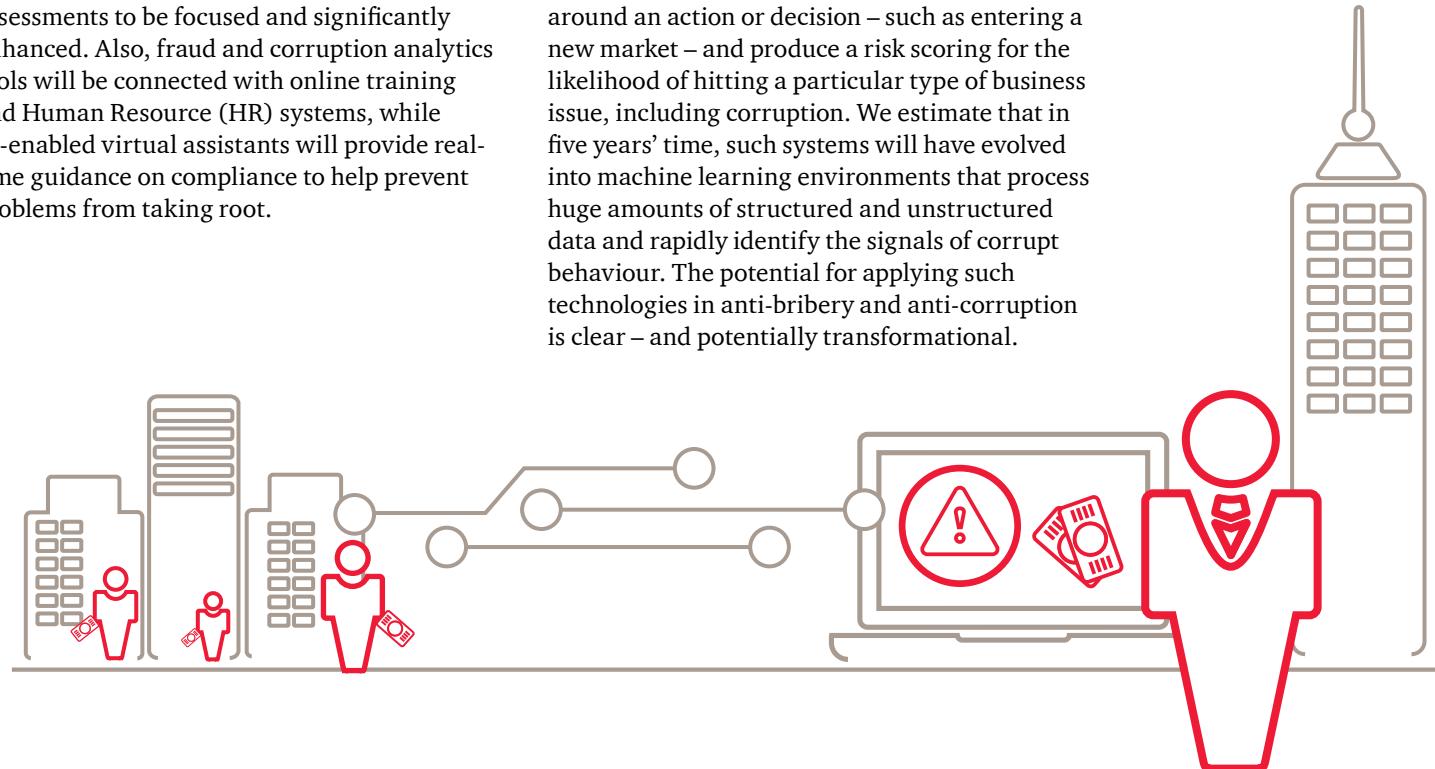
Further technology advances in prospect include rapid increases in processing power coupled with machine learning, allowing sensors to be linked in real time to data analytics risk algorithms, thus enabling compliance reviews and risk assessments to be focused and significantly enhanced. Also, fraud and corruption analytics tools will be connected with online training and Human Resource (HR) systems, while AI-enabled virtual assistants will provide real-time guidance on compliance to help prevent problems from taking root.

Third-party due diligence will become more automated, with workflow, research and transaction monitoring sensors connected on a single platform to better guide the process. And the growing adoption of blockchain will open up new opportunities for end to end tracking and controlling transactions more effectively and transparently which should help to draw attention to potentially nefarious activities and actors.

So, where is all this taking us? Already, machine learning can enable the creation of automatic predictive risk engines that take the parameters around an action or decision – such as entering a new market – and produce a risk scoring for the likelihood of hitting a particular type of business issue, including corruption. We estimate that in five years' time, such systems will have evolved into machine learning environments that process huge amounts of structured and unstructured data and rapidly identify the signals of corrupt behaviour. The potential for applying such technologies in anti-bribery and anti-corruption is clear – and potentially transformational.



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4

As societies become increasingly cashless, facilitation payments will fall

A number of countries across the world are well advanced in replacing physical cash with electronic means of exchange: notes and coins now represent just 2% of Sweden's economy, compared with 7.7% in the United States and 10% in the euro area¹⁵. Globally, it's estimated that the rise of electronic payment systems and cryptocurrencies means the number of transactions in physical cash could fall by 30% in five years. The more traceable and auditable nature of electronic money means its rising usage will potentially help to drive out bribes and facilitation payments.

However, this promising prospect comes with some provisos. By moving to a more cashless society, we're simply minimising a mechanism for paying a bribe, rather than changing the fundamental motivation behind it. And while electronic cash might have the effect of preventing a motorist from bribing a policeman to avoid a speeding ticket, the bigger challenges are corporate endorsed corruption (which rarely involves physical cash) and government-endorsed corruption, which continues to reinforce 'pay-for-play' schemes.

A further consideration is that the positive impact of electronic payments on corruption will initially be felt mainly in the developed world – the impact will take longer to feed through to the poor living in impoverished countries.

Ultimately, the fact is that facilitation payments will not end until governments pay their public sector employees more money. The average government worker in Asia earns less than US\$20,000 a year, so a facilitation payment of US\$500 or US\$1,000 is a reality that will be very hard to stop. All of this means going cashless will have some effect for a few, but is not a panacea for the many.



*Transactions in physical cash could fall by
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¹⁵ Source: https://www.nytimes.com/2015/12/27/business/international/in-sweden-a-cash-free-future-nears.html?_r=0

Ethical and transparent businesses will become the new norm

Whether companies like it or not, corporate information and activities are heading irreversibly towards greater public transparency and visibility. With scrutiny from social media and NGOs meaning organisations now operate in a “global goldfish-bowl”, businesses find that ever higher levels of openness are being demanded by the public and forced by regulation. Some organisations are trying to hold back the tide of transparency by hiding behind data protection and confidentiality. But those that embrace transparency can gain a competitive edge, by using it to drive culture change and ethical behaviour.

This approach also reflects a generational change. Today's millennial workforces are eager – desperate, even – to make a positive difference to the world. Businesses that harness this energy by empowering their employees to do the right thing will increasingly become recognised as ethical, transparent and well-governed, gaining higher trust as a result. For some businesses, this positive journey has already begun. Think Unilever's Sustainable Living Plan¹⁶ for decoupling growth from environmental impacts or GE's widely-recognised sustainability programme, which seeks to infuse compliance and governance into every aspect of its business¹⁷.

The effects of such actions extend to the creation of new business models and the attraction of different kinds of talent. And over the coming five years, a significant proportion of businesses will take this type of approach, putting ethics and transparency at the heart of their corporate purpose and using these to unite strategy, governance, risk management and compliance – including anti – corruption compliance – in a single model. Companies who authentically embrace this approach to developing their business on a sustainable basis will increasingly engage only with other businesses and customers who genuinely embrace a similar agenda.

Organisations that start doing all this today have a higher chance of being market leaders in five years' time. Those that do not may find themselves increasingly ostracised and overlooked – save for the attention they receive from regulators – when that time comes.



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¹⁶ Source: <https://www.unilever.co.uk/sustainable-living/>

¹⁷ Source: <http://www.gesustainability.com/>

Time to go beyond compliance

In combination, the five drivers that we've highlighted point to one underlying fact: that an approach to anti-bribery and anti-corruption based on "just complying" with the relevant regulations by doing the minimum possible is no longer acceptable or sustainable. Instead, company boards and leaders should look to go beyond compliance by embedding an ethical culture within their organisation. Committing to strong and sustainable ethical values is much more than just a mathematical calculation to determine the rate of return – it is about making a difference and improving society for all of us.

In summary, the time is right, and the need is imperative, for business leaders to harness the power of their workforces – who themselves want to make the world a better place – to drive forward a business culture that has zero tolerance for corrupt practice. For organisations, this culture needs to shape everyday decisions and behaviour by all their people in every country, supported and enabled by the right technologies.

Not all businesses will achieve this in five years. But those that succeed in doing so will be well-placed to win the battle for revenues, customers, talent and public trust. The opposite is equally true.

In closing, a thought on the ultimate victims of corruption. As we continue to debate the most appropriate anti-corruption programmes, and the need for a level playing field for business to compete on, let's not forget the consequences if we get this wrong – and indeed the implications for the billions of people who'll suffer those consequences every day of their lives.



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